Pro Kapital Grupp AS

November 16, 2018

Basic Report

Analysts

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Evaluation result

BUY

(previous: BUY)

Fair Value

€1.97

(previous €2.50)

Baltic Real Estate as an Opportunity

Pro Kapital Grupp (PKG) is a developer of large-scale retail and residential real estate in the Baltic countries of Estonia, Latvia and Lithuania. The group can look back on a long-term track record in planning, building and selling large real estate projects in different asset classes and enjoys an extensive network among the Baltics with dedicated local management teams. As the company´s performance is dependent on the completion and sale of development projects, sales and earnings figures as well as cash flows are inherently volatile.

Despite the high interest expenses, PKG´s financial structure indicates no excessive indebtedness. As at the end of Q2 2018, all liabilities in the amount of €88.6 mln were collateralized with properties and pledged shares in the amount of €181 mln (loan-to-value (LTV) ~ 49%). This in turn has two important implications: Firstly, PKG´s current debt level is far away from its debt capacity enabling the company to raise more funds to realize further development projects. Secondly, as the risks for banks providing PKG with loans are quite low (LTV<50%), terms for additional secured bank loans should still be favorable.

In the first half of 2018, PKG significantly improved net income from a loss of €2.6 mln in H1/2017 to a profit of €2.8 mln due to a notable rise in revenues from sale of real estate (+258%). Accordingly, gross profit was at €5.0 mln, +185% higher compared to previous period. Based on information available in PKG´s financial statements we anticipate continuing completion activity of residential development projects leading to a significant expansion of revenues from sale of real estate in the coming years.

Currently PKG´s largest single-project is the T1 shopping and entertainment center in Tallinn with a total investment value of €78.1 mln. Up to now construction of T1 increased PKG´s debt burden considerably. In November 2018 T1 started operations and should significantly contribute to top and bottom line. Furthermore, PKG´s risk-return profile is expected to improve as risky revenues related to development projects are complemented by stable and recurring revenue streams from T1 letting activity. This should not only yield steady operating profits in the coming years but also enable the company to pay a dividend on a regular basis.

Our fundamental DCF analysis returns a fair value of €1.97 per share. In light of the current share price we rate the stock as “Buy”.

Key Financial Figures

Year	Sales (€ mln)	EBITDA (€ mln)	EBIT (€ mln)	EBT (€ mln)	Net Profit (€ mln)	EPS (€)	DPS (€)	EBIT-Margin	Net-Margin
2015a	18.3	2.1	1.4	-1.2	-2.0	-0.04	0.00	7.8%	-11.0%
2016a	17.6	-0.5	-1.2	-4.5	-4.6	-0.07	0.00	-6.6%	-26.4%
2017a	12.1	2.3	1.8	-1.5	-1.0	-0.01	0.00	14.9%	-7.9%
2018e	29.8	5.7	5.3	0.2	0.2	0.00	0.01	17.7%	0.6%
2019e	46.0	11.2	10.8	5.8	5.2	0.09	0.00	23.6%	11.4%
2020e	53.6	15.7	15.1	10.6	9.6	0.17	0.02	28.2%	17.8%
2021e	57.4	17.2	16.9	9.6	8.7	0.15	0.03	29.5%	15.2%

Source: BankM Research (e)

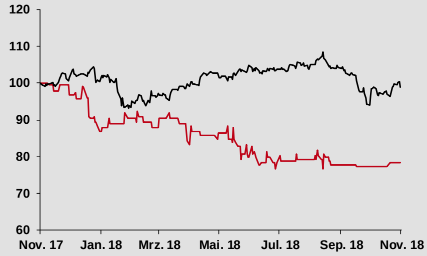
Sector	Real Estate Development
WKN	579797
ISIN	EE3100006040
Bloomberg/Reuters	17E GF
Accounting standard	IFRS
Financial year	Dec 31
Q3/2018 report	November 22, 2018
Market segment	Open Market
Transparency standard	Quotation Board

Financial ratios	**2018e**	**2019e**	**2020e**	**2021e**
EV/Sales	5.7	3.7	3.2	3.0
EV/EBITDA	29.9	15.2	10.9	10.0
EV/EBIT	32.4	15.8	11.3	10.1
P/E adj.	463.1	16.8	9.2	10.1
Price/Bookvalue	1.1	1.0	1.0	0.9
Price/FCF	-2.5	22.0	6.9	5.2
ROE (in %)	0.2	6.2	10.5	8.8
Dividend yield (in %)	1.0	0.0	1.2	2.1

Number of shares outs. (in '000)	56,688
MarketCap / EV (in € m)	87.9 / 171.1
Free float (in %)	15.94%
Ø daily trading vol. (3M, in €)	4,220
12M high / low (in €; close)	1.98 / 1.33
Price November 15, 2018 (in €; close)	1.55

Performance	**1M**	**6M**	**12M**
absolute (in %)	1.3	-9.4	-21.8
relative (in %)	-3.9	-6.5	-21.7

Benchmark index STOXX Europe 600 Real Estate Superindex



Pro Kapital Grupp AS (red), Performance 1y vs. STOXX Europe 600 Real Estate Supersector Total Return (black)
Source: Bloomberg

Content

Current Development Projects

T1 Mall of Tallinn, Tallinn (EST)

The T1 Mall of Tallinn is situated in a very attractive location between the Tallinn International Airport and the city center, directly adjacent to the future Rail Baltica railway station and Peterburi road, one of the major roads of Tallinn. The construction on the T1 Mall of Tallinn began in 2016 on around 108,814 sqm of total usable space. The building volume of 108,814 sqm and estimated total investment of over 70 million euros makes the project one of the largest and most important for the company.

The management aims at creating a modern shopping experience with lots of entertainment opportunities, including a state-of-the-art multiplex cinema

The management aims at creating a modern shopping experience with lots of entertainment opportunities, including a state-of-the-art multiplex cinema. Most importantly, Pro Kapital has a comprehensive and successful track record of planning, building and operating large shopping malls. In the past, the group has already developed and operated the Kristiine Shopping Centre in Tallinn and the Domina Shopping Centre in Riga and has successfully sold both to international institutional buyers in 2011 and 2007, respectively.

The T1 Mall of Tallinn will have a leasable area of 55,000 sqm with over 200 shops located across four floors. The top floor features a 12,000 sqm large entertainment area including a first-in Europe rooftop Ferris wheel rising 120m above sea level. The T1 Mall of Tallinn opened its doors to the public in November 2018.

Computer Simulation of the Peterburi road Mall

Source: Pro Kapital Grupp AS

Ülemiste 5, Tallinn (EST)

Project will comprise of about 13,000 sqm of gross leasable area

The Ülemiste 5 land plot is closely connected to the T1 Mall of Tallinn property situated on the Peterburi road. Pro Kapital has planned to develop commercial premises with gross leasable area of around 13 thousand square meters. Currently a detailed plan has been adopted, but a new more detailed plan is under way in collaboration with the city of Tallinn and in close connection with Rail Baltica terminal.

Kristiine City, Tallinn (EST)

The project has a total gross building area (GBA) of 139,000 sqm

Kristiine City represents Pro Kapital's largest development potential in terms of space. It is one of the largest residential quarter developments in the Baltics, situated in Tallinn's Kristiine borough, a residential area in the City Centre periphery of Estonia's capital. The unique project foresees impressive red brick buildings smoothly integrated with the modern architecture that will arise over the hill in the center of the new block, providing a series of apartment and office buildings. Overall the project is aimed at middle-class individual buyers, who prefer to live in the proximity of the city center and appreciate a spacious green environment.

The construction of Kristiine City started in 2014. Approximate gross building area (above ground) of the project is 139,000 sqm of which sellable area is approx. 74,500 sqm and rentable area ca 24,000 sqm. As of June 2018, 12,800 sqm of sellable area has been completed and 4,400 sqm of sellable area is under development. The project will be developed in stages. The expected completion of the project is in 2027.

Computer Simulation of Kristiine City

Source: Pro Kapital Grupp AS

Kalaranna Quarter, Tallinn (EST)

Kalaranna Quarter is located in the heart of Tallinn at the waterfront and is the prime development property in Tallinn. This unique property expands on more than six hectares.

The company aims to create waterfront parks and a public promenade open to the sea.

The area that should be one of Tallinn's gateways and landmarks is yet disarranged. The company aims to create a luxury residential development surrounded by waterfront parks and a public promenade open to the sea with commercial space on the ground floor of most of the buildings. Commercial space will be used as restaurants, cafes and other commercial spaces. A central square will be located in the heart of the Kalaranna Quarter, surrounded by restaurants, giving the advantage to sell apartments with not just sea-view, but also views to the central square. For the development of Kalaranna Quarter a public architecture competition took place, which was won by the well-known Estonian architects Ott Kadarik and Mihkel Tüür.

The project has a total GBA of 42 500 sqm

The development of the Kalaranna District will begin in 2019. The gross building area (above ground) of the project is 42,500 sqm with a sellable area of approx. 23,000 sqm and a rentable area of approx. 9,500 sqm. The project will be developed in stages and is expected to be completed in 2025.

Another important fact regarding Kalaranna is that Pro Kapital has already realized a significant volume residential, office and hotel space in the neighborhood.

Kalaranna architecture competition won by Kadarik Tüür Arhitektid OÜ

Source: Pro Kapital Grupp AS

Tallinas Quarter, Riga (LAT)

Tallinas Quarter is a large development with mixed use including series of apartment buildings with some commercial functions on the first floor. Residential complex will consist of newly constructed buildings and restored historical buildings that will give a special vibe to the area as well as some smaller retail spaces. The property of Tallinas Street 5/7 is located in the “quiet center” of Riga, a sought-after quarter both for living and working. This is because of its central location in combination with excellent infrastructure and parking options, which we saw during our site inspection in October 2014.

The development of the Tallinas Quarter will begin in 2020. Approximate gross building area (above ground) of the project is 30,900 sqm with a sellable area of 20,950 sqm. The project is expected to be completed in 2022. There will be 326 apartments and 241 parking spaces altogether. Overall, the project is targeted to middle-class people seeking to upgrade their living condition without sacrificing a location close to the city center.

The project has a total GBA of 30,900 sqm

Computer Simulation of the Tallinas Residential Complex

Source: Pro Kapital Grupp AS

Kliversala Residential Quarter, Riga (LAT)

The property is situated on the waterfront and enjoys views of the Old Town on the opposite bank

Kliversala represents a unique residential quarter development in Riga with upscale to luxury living space right at the waterfront opposite the old town of Riga. Thanks to its location, there is hardly any competition regarding luxury residential space directly at the waterfront.

Two specific advantages of the project are its large shoreline directly opposite the old town of Riga with stunning views over the river and the city, which is a unique selling point of the project, as well as the very attractive location in between the city (2 minutes by car) and the airport (15 minutes by car).

The land is located between two main bridges, next to one of the biggest parks in Riga and has a long coastline. It is only a ten minutes' walking distance from the Old Town of Riga. The project for the residential area foresees a series of exclusive apartment buildings coupled with commercial premises and a recreational area. The location is extremely attractive for upscale residential and commercial real estate development.

River Breeze Residence

Source: Company website (www.prokapital.com)

Zvaigznes Quarter, Riga (LAT)

The premises are located at one of the main transport arteries heading through the City, next to the railways within a former industrial area

The project represents commercial property of the group in Riga. Office complex to be built on the site of former factory is located at one of the main transport arteries heading through the city – Brīvības street. The project foresees renovation of the existing industrial building into office building during the first phase and construction of new office and multilevel parking during the second phase. The site is ready for construction, existing building is conserved. The Company started the design works for the renovation in 2017 and is currently in progress with technical design of the project. A building permit for reconstruction works of existing building has already been obtained by the company. The reconstruction of the existing building is planned to start in the upcoming year. Approximate gross building area (above ground) of the total project is 29,400 sqm of which rentable area is ca 18,000 sqm. The project will be developed in stages and is expected to be completed in 2021.

Computer Simulation of the Zvaigznes Quarter Office Buildings

Source: Company website (www.prokapital.com)

Šaltinių Namai, Vilnius (LIT)

The project has a total GBA of 18,500 sqm

Currently the only active development project in Lithuania, consisting mainly of the residential living space in the heart of Vilnius, next to the Old Town. The location is especially attractive for a residential area, as it is located right next to the Old Town and enjoys a good access both by cars and public transport. The first and the second stages of Project Saltiniu Namai have been completed: six five floor buildings with attics and 11 private cottages have been built with the total sellable area of 20,000 sqm. Residents of Saltiniu Namai quarter are already enjoying the private courtyard, finished landscape works and fully equipped children‘s playground.

The following stage of the project is called Saltiniu Namai I Attico. It is a prestigious new quarter with luxury apartments surrounded by nature in the most tranquil part of Vilnius Old Town – Saltiniu Street. The uniqueness of Saltiniu Namai I Attico is marked by the landscape of the Old Town, the quality of daily life and the feeling of security. New Energy class A apartments are being built and villas will soon emerge, as well. Four residential buildings from three to five floors with mansard are currently under construction. Approximate gross building area (above ground) of the total project is 18,500 sqm of which sellable area is ca 14,000 sqm (8,000 sqm currently under construction). The full project is expected to be completed in 2022.

Current Picture of Saltiniu Namai Residential Complex, completed

Source: Company website (www.prokapital.com)

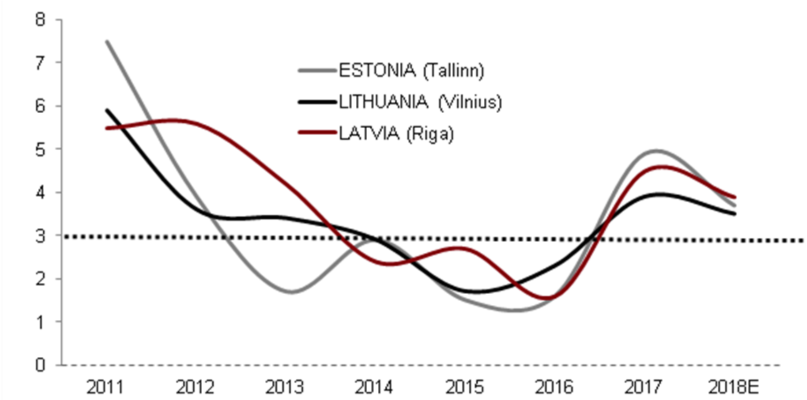
Market environment

Macroeconomics in the Baltic region

Economic growth above advanced economies

During the last 6-7 years Baltic States continuously grew their economies. Although GDP showed below average growth between 2014 and 2016, in 2017 Baltic economies rebounded significantly and are expected to stay above the 3%-level mid-term driven by enduring export activities. According to estimates by the International Monetary Fund (IMF), all three Baltic States are projected to expand GDP by more than 3% in 2018 which is significantly higher than anticipated growth for advanced economies in the amount of 2.3% (World Economic Outlook, 2018). Moreover, in 2017 all Baltic States countries experienced higher growth than initially estimated by economists because of unexpectedly strong economic activity especially during Q2 and Q4.

GDP growth (LHS, in %) in the Baltic countries

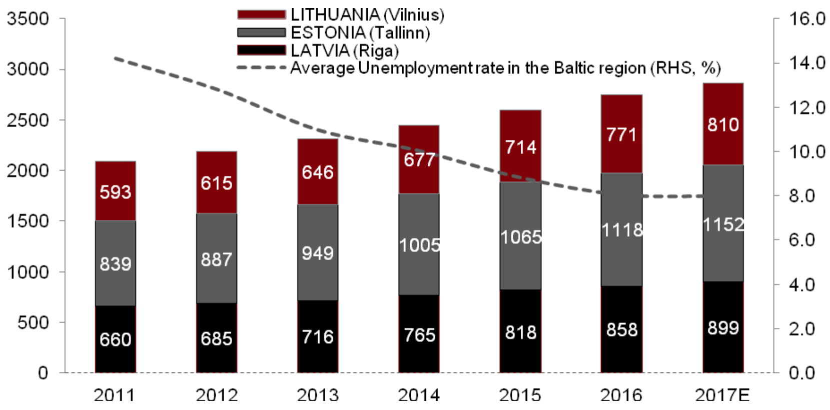


Source: IMF World Economic Outlook Update, January 22, 2018, BankM Research

Consumer confidence backed by low unemployment, rising wages and moderate debt levels...

Simultaneously, GDP growth in the Baltic economies induced growing wages and continuously decreasing unemployment rates. Both indicators have helped improve consumer confidence. Moreover, all aforementioned factors in combination with relatively low private debt levels observable across Baltic States lay the ground for residential house purchases, an implicitly point to a buoyant future house market.

Average monthly gross wage across the Baltic region (EUR)



Source: Ober-Haus Real Estate Market Report 2017, BankM Research

...spur demand for residential properties

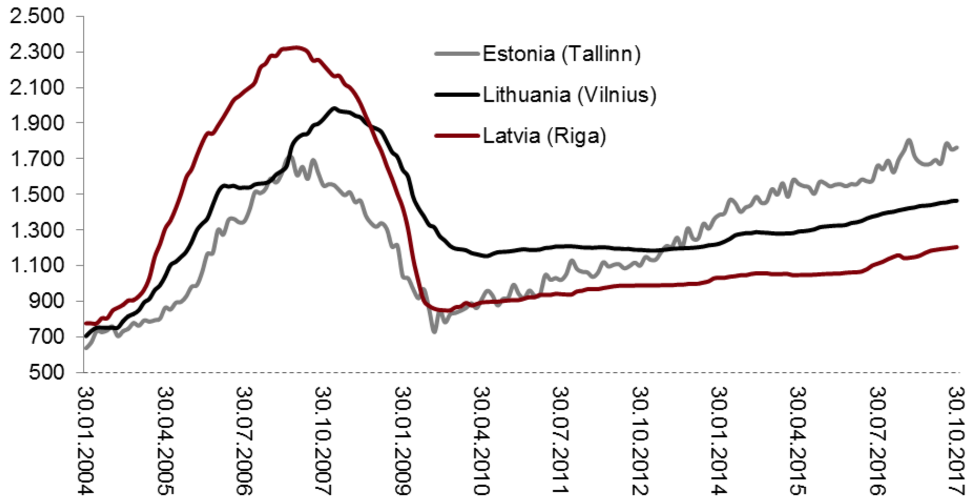
According to data from national statistical agencies, several sectors across Baltic States showed above average contributions to GDP growth in 2017. Whereas for Estonia the ICT (Information & Communication Technologies) and construction sectors contributed the most to GDP growth in 2017, Latvia´s and Lithuania´s economic expansion was primarily driven by manufacturing, trade and transportation sectors. However, construction activities contributed to growth across Baltic States induced by steadily increasing residential house prices and the need for living space, new storage as well as industrial premises and offices.

Baltic´s Real Estate Market Environment

Ongoing excess demand drives residential house prices

In 2017 real estate markets in the Baltic region evolved gradually without signs of overheating as increasing construction activities were accompanied by rising prices for the constructed buildings. Whereas demand for commercial bulidings was primarily driven by successfully expanding companies, the observed price increase for residential buildings mirrors the ongoing excess demand for housing space in prospering regions. This can be seen in the chart below where all capital cities' average apartment prices increased in 2017, continuing the upward movement observable since the recovery process after the global financial meltdown in 2008/2009.

Average Apartment Prices (in EUR/sqm)



Source: Ober-Haus Real Estate Advisors (October 2017), BankM Research

Strong construction activity in Estonia

According to preliminary data of Statistics Estonia, the production value of Estonian building construction accrued by 23% and stood at EUR 2.5bn (8% thereof construction volumes in foreign countries) by the end of 2017. Construction activities were dominated by dwelling completions which reflects demand for new high-quality residential buildings in good locations. The *Register of Construction Works* counted 5,890 dwelling completions, which is 1,158 dwellings more than the year before with block of flats being the most popular type of residential building.

Lower residential building construction activity in Latvia

In Latvia, the real estate market draws a somehow different picture. Although construction output increased by 19% to EUR 1,736m, output growth was first and foremost related to a significant increase in construction of civil engineering works (+30%) as well as construction of non-residential buildings (+20%).

Construction of residential buildings, in turn, fell by 10% despite rising average apartment prices and increasing total household expenditure. In 2017, total household consumption increased by 5% compared to the previous year.

Inflationary pressure and the risk of yield compression

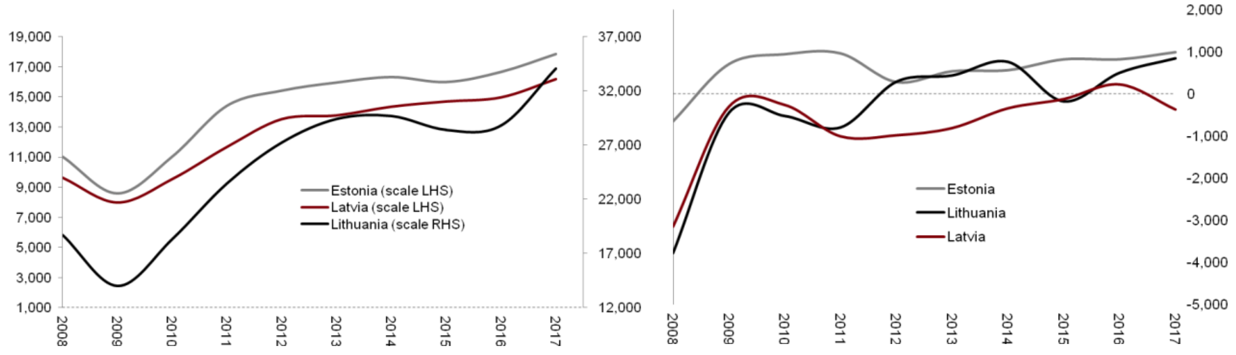
Low interest rates and the hunt for return

Today, many European real estate markets are primarily driven by low interest rates as well as the hunt for return by institutional investors. On the one hand, ongoing economic growth leads to rising wealth levels (higher average wages + decreasing unemployment rates) which in turn incentivize private households to leave rural areas and move to prospering metropolises. The influx of labor force in combination with steadily increasing wages usually goes hand in hand with rising property rental rates positively affecting gross residential real estate yields.

Neither over- nor undervalued

On the other hand, institutional investors who correctly anticipate the need for affordable living space participate in the construction of residential properties in order to yield a risk adjusted return that is well above concurrent asset classes like stocks, bonds or other alternative investments. According to market research executed by Danske Bank, gross residential real estate yield, which is the ratio of annual rent divided by the property value, is still in equilibrium true for all Baltic States. Calculations show that Baltic States´ real estate markets compared to other European countries are neither over- nor undervalued evaluated by real estate yields that range from 4.8% (Estonia) to 5.3% (Latvia, Lithuania real estate yield: 5.1%). Whereas the scenario of overvalued Baltic real estate markets would require several years of disproportional accretion of property values, especially for Latvia, short-term risks arise mainly from inflationary pressure and weakening export markets, that is subdued economic growth.

Historical export volume (left chart, in EURm) & Net exports for the Baltic States (in EURm)



Source: Eurostat, BankM Research

The risk of imported inflation

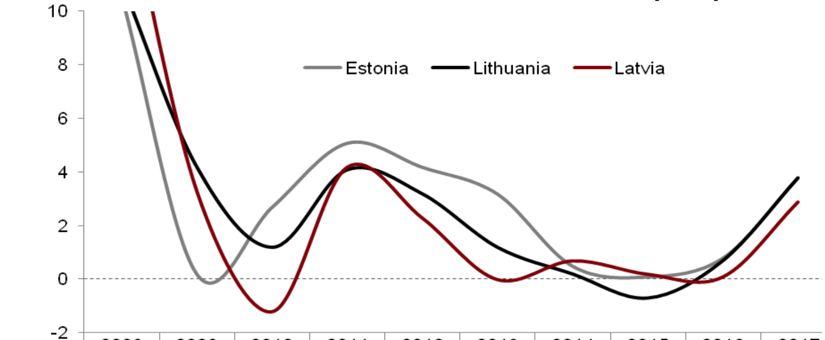
As shown by the left chart, in the past all Baltic States expanded their export of goods and services reflecting international competitiveness. However, whereas Estonia´s and Lithuania´s exports surpassed imported goods and services, Latvia is marked as a net importer (right chart). This by no means is bad or signals a weak economy but it poses the threat of disadvantageous economic developments spilling over from foreign countries into Latvia´s domestic market. For instance, higher prices for imported goods and services would also increase prices of domestic goods using imports as raw materials, causing an increase in the general prices of all goods and services. This imported inflation could also lead to a damped investment activity as households would have to increase the share of income for consumption, and hence reduce savings in order to maintain their standard of living. However, just recently Standard & Poor´s has lifted

Lithuania´s long-term credit rating from A- to A and its short-term credit rating from A-2 to A-1 pointing to public finances managed in a responsible manner and conducting efficient fiscal policies. Taking into account the positive credit ratings for Estonia (Moody´s: A1; Fitch: A+) and Lithuania (S&P: A; Fitch: A-) for the time being economic outlook across Baltic States is evaluated as stable and positive.

Rising inflation across Baltic countries

In 2017, inflation revived in the Baltic region and stood significantly above levels seen the years before. Consumer prices in Estonia were driven by food and non-alcoholic beverages, which contributed the lion share to total price inflation. Inflation in Latvia, the lowest among Baltic countries, stood at 2.9% and was induced by energy and food prices. According to market experts, inflation in Lithuania was primarily boosted by higher core inflation that is growing employment and fast wage growth. Average monthly gross wages across Baltic States increased in parallel meaning that the loss of purchasing power could have been compensated for by rising income levels. Comparing both indicators we see, that in Latvia and Lithuania wage growth outpaced inflation rate, though in Estonia the reverse was true.

Inflation in Baltic countries between 2008 and 2017 (in %)



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Estonia	10.6	0.2	2.7	5.1	4.2	3.2	0.5	0.1	0.8	3.8
Lithuania	11.1	4.2	1.2	4.1	3.2	1.2	0.2	-0.7	0.7	3.8
Latvia	15.3	3.3	-1.2	4.2	2.3	0	0.7	0.2	0.1	2.9

Source: Ober-Haus Real Estate Advisors (October 2017), BankM Research

Scenarios of yield compression

Inflation not only impacts consumers´ purchasing power but also residential property markets through several channels. If prices for everyday goods and services increase more than wages, demanding higher property rental rates by property owners becomes harder. It is also conceivable that in such a scenario newly built residential properties could only be rented at significantly lower rents. Also, demand for living space in prospering cities could decrease due to higher costs of living. In sum, all the aforementioned scenarios pose the threat of increasing vacancy rates of existent as well as residential properties currently under construction. Hence, this could initiate an asset price deflation and simultaneously bring down property values and gross residential real estate yields. Even in a scenario with rising residential property values, as currently observable in the Baltic States, the inability to raise rental rates would imply a compression of gross residential real estate yields. This in turn would not only hamper construction activity and lead to reduced property investment activity by institutional investors and enterprises but also detrimentally affect consumer confidence.

EU funding complements domestic investment activity

Finally, Baltic States economies follow a dynamic growth path with rising standards of living. Important economic indicators point to an ongoing economic expansion as confirmed by many market observers and economists. Short- to medium-term there are no real threats that have the potential to choke off the economic upswing. Moreover, due to their relative small economic size suddenly occurring economic shocks could be cushioned easily by receiving EU aid funds used for infrastructure investments and other reforms. In the recent past investment activity of Baltic States was additionally stimulated by EU funding and is expected to continue through the implementation of the *EU Strategy for the Baltic Sea Region* (EUSBSR) program coordinated by the European Commission.

Financial Analysis and Discussion

Profit and Loss Account

Mechanics of the business

The mechanics of the business works as follows: Properties, which are acquired are not yet being considered as ongoing projects and hence are being booked as Investment Property. As soon as construction of the project starts and the firm is investing in it (CAPEX), they move to Inventories. In our model we assume a fixed rate of 30% of the Investment Property being annually transferred to Inventories ("transfer rate"). We also consulted the annual report 2017 and H1 2018, where the current projects are described in detail regarding construction costs, expected completion date, and number of apartments (here, we exclude the T1 project which will be operated by the company itself and therefore remains in Investment Property).

Given the business model of the company as a project developer, sales of property only takes place after the end of development. Therefore, no Investment Property, but Inventory is sold. These cycles are determined by the time frame of each respective development. Due to a continuous flow of projects, we calculate with a fixed percentage of Inventory sold every year ("sales rate"). On the basis of historical data, we calculate with a sales rate of 30%.

Sales-to-cost ratio of 1.42

In light of the average sales/cost ratio of 1.42 in the last six years and the reported costs of the individual projects, we have calculated expected revenues from sales of real estate. Furthermore, we have considered rental revenues from the shopping mall T1 (Tallin) which started operations in November 2018. After the sale of two hotels in Tallin and Riga, respectively, only the PK Parkhotel Kurhaus in Bad Kreuznach, Germany, remains and contributes to top line. Maintenance services for third parties have been significantly reduced and, as a result, are not further considered in our projections from 2019 onwards.

Regarding cost structure (S&D, G&A), we estimate a growth rate of 2%.

The P&L is significantly burdened by interest expenses on the large amount of debt. We calculate a mean interest rate of 7.74% derived from issued convertible and non-convertible bonds as well as from bank loans.

Further, we applied a tax rate of 9.43%, which results from the weighted average of the respective revenue share of the four countries in which Pro Kapital generates revenues (Estonia and Latvia: 0% due to taxation of distributions, Germany: 30%, Lithuania: 15%).

EBIT margin increases from 14.9% in 2017 to 29.5% in 2021 mainly due to T1, which we consider as one of the major drivers of prospective profitability.

Profit and Loss Account

Fiscal Year 31.12 (IFRS) in € '000	2015a	2016a	2017a	2018e	2019e	2020e	2021e	5y - CAGR* 2016 - 2021
Total Sales	**18,322**	**17,610**	**12,077**	**29,806**	**45,956**	**53,624**	**57,429**	*26.7*
Growth rate in %	*77.3*	*-3.9*	*-31.4*	*146.8*	*54.2*	*16.7*	*7.1*	
Real estate sales	10,055	12,902	6,621	22,650	31,226	35,820	38,049	
Hotel revenues	6,489	2,901	3,533	3,657	3,730	3,804	3,880	
Maintenance fees	1,573	1,637	1,748	1,500	0	0	0	
Shopping center rental inc./other rent	205	170	175	2,000	11,000	14,000	15,500	
Cost of sales	**13,874**	**12,688**	**7,516**	**20,826**	**28,789**	**32,079**	**33,907**	*21.7*
% of sales revenues	*76%*	*72%*	*62%*	*70%*	*63%*	*60%*	*59%*	
Cost of real estate sold	7,942	8,536	3,303	15,918	21,945	25,174	26,740	
Remaining costs	5,932	4,152	4,213	4,209	3,044	3,105	3,167	
Shopping Center T1 operating costs	0	0	0	700	3,800	3,800	4,000	
Gross Profit	**4,448**	**4,922**	**4,561**	**8,980**	**17,167**	**21,546**	**23,522**	*36.7*
Selling and marketing expenses	466	445	822	838	855	872	890	
General and administration expenses	5,250	5,131	5,256	5,361	5,468	5,578	5,689	
Other income	3,353	183	4,114	2,500	0	0	0	
Other expenses	661	697	800	0	0	0	0	
EBIT	**1,424**	**-1,168**	**1,797**	**5,280**	**10,843**	**15,096**	**16,943**	*75.2*
Financing Result (Inc.+/Exp.-)	-2,593	-3,314	-3,346	-5,071	-5,071	-4,529	-7,322	
Finance income	*13*	*12*	*6*	*0*	*0*	*0*	*0*	
Financing expenses	*2,606*	*3,326*	*3,352*	*5,071*	*5,071*	*4,529*	*7,322*	
EBT	**-1,169**	**-4,482**	**-1,549**	**210**	**5,772**	**10,567**	**9,621**	*n.a.*
Taxes on Income (Exp.+/Inc.-)	841	163	-596	20	544	996	907	
Net profit from cont´d operations	**-2,010**	**-4,645**	**-953**	**190**	**5,228**	**9,571**	**8,714**	
Profit from discont´d operations)	0	620	435	0	0	0	0	
Adjusted net profit before minorities	**-2,010**	**-4,025**	**-518**	**190**	**5,228**	**9,571**	**8,714**	
- Minorities	-76	-112	-99	4	105	192	175	*n.a.*
Adjusted net profit after minorities	**-1,934**	**-3,913**	**-419**	**186**	**5,124**	**9,379**	**8,540**	
For information purposes								
Depreciation and amortization	*693*	*695*	*455*	*435*	*384*	*581*	*250*	
in % of total sales	*3.8*	*3.9*	*3.8*	*1.5*	*0.8*	*1.1*	*0.4*	
EBITDA	*2,117*	*-473*	*2,252*	*5,716*	*11,227*	*15,677*	*17,194*	
No. of shares (Ø '000 outstanding)	54,204	54,272	56,688	56,688	56,688	56,688	56,688	
Net profit / share (EPS)	-0.04	-0.09	-0.02	0.00	0.09	0.17	0.15	
Adj. net profit / share (adj. EPS)	-0.04	-0.07	-0.01	0.00	0.09	0.17	0.15	
Dividend per share (DPS)	0.00	0.00	0.00	0.01	0.00	0.02	0.03	

* If 2016 is negative, then 4y - CAGR
Source: BankM Research (e)

P & L Margins

in %	2015a	2016a	2017a	2018e	2019e	2020e	2021e
Gross Profit Margin	24.3	28.0	37.8	30.1	37.4	40.2	41.0
EBITDA Margin	11.6	-2.7	18.6	19.2	24.4	29.2	29.9
EBIT Margin	7.8	-6.6	14.9	17.7	23.6	28.2	29.5
EBT Margin	-6.4	-25.5	-12.8	0.7	12.6	19.7	16.8
Net Profit Margin	-11.0	-26.4	-7.9	0.6	11.4	17.8	15.2

Source: BankM Research (e)

Cash Flow Statement

Net working capital is characterized by the change in inventory, which consists of projects close to being sold. We model receivables and payables as a linear function of sales revenue. Further, we assume ongoing investment activities of €25 mln. p.a., whereof 70% are used for construction work (inventory) and 30% for building up investment property.

Ongoing heavy investment activities

We assume a pay-out ratio of 20% on net profit after minorities for 2018 and future years. In January 2018, the company has paid out a dividend of T€815 for previous periods.

Cash Flow Statement

Fiscal Year 31.12 (IFRS) in € '000	2015a	2016a	2017a	2018e	2019e	2020e	2021e
Net Profit	**-2,010**	**-4,025**	**-518**	**190**	**5,228**	**9,571**	**8,714**
+ Depreciation and amortization	693	695	455	435	384	581	250
+ Chg. in long-term provisions	278	-64	-101	0	0	0	0
= Cash Earnings	**-1,039**	**-3,394**	**-164**	**625**	**5,612**	**10,152**	**8,965**
- Chg. in net working capital	-4,384	384	17,732	-3,394	-18,309	-23,081	-25,737
+ (Incr.) / - (Decr.) Inventory net non-cash transitions from Investment Property	*-2,097*	*1,707*	*23,880*	*-11,407*	*-15,918*	*-21,945*	*-25,174*
+ (Incr.) / - (Decr.) Trade receivables and	*-957*	*2,862*	*408*	*2,312*	*3,901*	*1,852*	*919*
- (Incr.) / + (Decr.) Trade payables	*-1,330*	*-4,185*	*-6,556*	*5,701*	*-6,293*	*-2,988*	*-1,483*
+ Net financial Items	2,450	3,499	3,460	5,071	5,071	4,529	7,322
+ Other non-cash items	-2,297	927	9,155	-1,910	0	0	0
= Operating Cash Flow	**3,498**	**648**	**-5,281**	**7,180**	**28,993**	**37,762**	**42,024**
- Capex in investment property	1,368	9,747	25,207	43,000	25,000	25,000	25,000
+ Proceeds from disposal of LT assets	0	7	13,008	0	0	0	0
= Free Cash Flow	**2,130**	**-9,092**	**-17,480**	**-35,820**	**3,993**	**12,762**	**17,024**
- Dividends (previous year)	0	0	0	850	37	1,025	1,876
+ Net financial Items	-2,455	-3,359	-3,318	-5,071	-5,071	-4,529	-7,322
+ Change of loan positions	4,469	11,165	21,885	37,334	0	-7,000	-5,000
- Payout to minorities	-153	-276	480	4	105	192	175
+ Increase in share capital (net)	214	0	4,328	0	0	0	0
= Incr. in Cash (+)/Decr. in Cash (-)	**4,511**	**-1,010**	**4,935**	**-4,411**	**-1,220**	**17**	**2,651**

Source: BankM Research (e)

Balance Sheet

The debt position has been modeled to reflect the investment activity into Investment Property and/or into Inventory. Further, we assume that the company will retain approx. €5-7 mln liquidity in order to be flexible for operational purposes. According to our balance sheet projection, equity ratio decreases from 47.2% in 2017 to 45.4% in 2021, due to continued leveraging.

Balance Sheet

Fiscal Year 31.12 (IFRS) in € '000	2015a	2016a	2017a	2018e	2019e	2020e	2021e
Assets							
Total Non-Current Assets	**109,885**	**118,313**	**121,929**	**139,962**	**128,568**	**120,280**	**114,635**
Non-current receivables	48	42	37	37	37	37	37
Property, plant and equipment	17,103	18,336	7,435	7,686	7,302	6,720	6,470
Investment property	92,457	99,660	114,140	131,922	120,913	113,206	107,811
Intangible assets	277	275	317	317	317	317	317
Total Current Assets	**20,438**	**24,001**	**53,229**	**66,165**	**88,938**	**101,568**	**110,359**
Inventories	12,438	14,144	38,024	53,059	73,151	83,912	89,133
Trade receivables	1,608	4,475	4,888	7,200	11,101	12,953	13,872
Cash and cash equivalents	6,392	5,382	10,317	5,906	4,686	4,703	7,354
Balance Sheet Total	**130,323**	**142,314**	**175,158**	**206,127**	**217,506**	**221,848**	**224,995**
Shareholder's Equity / Liabilities							
Total Equity	**83,432**	**80,204**	**82,682**	**82,018**	**87,104**	**95,458**	**102,122**
Subscribed capital	10,841	10,854	11,338	11,338	11,338	11,338	11,338
Share premium	1,669	1,816	5,661	5,661	5,661	5,661	5,661
Retained earnings and other reserves	69,287	65,735	64,288	63,624	68,710	77,064	83,728
Minorities	1,635	1,799	1,395	1,395	1,395	1,395	1,395
Long term liabilities	**31,741**	**42,569**	**68,121**	**105,623**	**105,623**	**98,623**	**93,623**
Provisions	347	365	99	99	99	99	99
Bank loans & corporate bonds	27,054	38,040	62,527	100,029	100,029	93,029	88,029
Non-current payables	837	804	3,437	3,437	3,437	3,437	3,437
Deferred tax	3,503	3,360	2,058	2,058	2,058	2,058	2,058
Short term liabilities	**15,150**	**19,541**	**24,355**	**18,486**	**24,779**	**27,767**	**29,249**
Trade payables & pre-payments	6,795	10,728	17,315	11,614	17,907	20,895	22,377
Bank loans & corporate bonds	8,004	8,261	6,738	6,570	6,570	6,570	6,570
Tax payables	264	547	132	132	132	132	132
other current liabilties	87	5	170	170	170	170	170
Total Liabilities	**46,891**	**62,110**	**92,476**	**124,109**	**130,402**	**126,390**	**122,872**
Balance Sheet Total	**130,323**	**142,314**	**175,158**	**206,127**	**217,506**	**221,848**	**224,995**

Source: BankM Research (e)

Balance Sheet Ratios

in % of Total Assets	2015e	2016e	2017e	2018e	2019e	2020e	2021e
Total Fixed Assets	84.3	83.1	69.6	67.9	59.1	54.2	51.0
Total Current Assets	15.7	16.9	30.4	32.1	40.9	45.8	49.0
Inventories	9.5	9.9	21.7	25.7	33.6	37.8	39.6
Trade receivables	1.2	3.1	2.8	3.5	5.1	5.8	6.2
Total liquid funds	4.9	3.8	5.9	2.9	2.2	2.1	3.3
Shareholders Equity	64.0	56.4	47.2	39.8	40.0	43.0	45.4
Long Term Liabilities	24.4	29.9	38.9	51.2	48.6	44.5	41.6
Short Term Liabilities	11.6	13.7	13.9	9.0	11.4	12.5	13.0
Total Liabilites	36.0	43.6	52.8	60.2	60.0	57.0	54.6

Source: BankM Research (e)

Valuation

DCF Analysis

We apply a 3-phase model to analyze free cash flows:

Phase I	2018 - 2021 (short-term planning horizon)
Phase II	2022 - 2025 (medium-term forecast)
Phase III	Terminal Value

We use the following sources to estimate future cash flows:

- Discussions with Management
- Annual Report 2017 and H1/2018 reporting
- Market Outlook for the Baltics

Discussion on the calculation of weighted capital costs:

Calculation of weighted average cost of capital

The cost of equity is calculated on the basis of the yields for German government bonds with matching maturities. We represent the expected market return with the 5-year performance of the MSCI World. To approximate a beta, we have regressed the weekly returns of the benchmark index "Stoxx Supersector Real Estate Performance" against the MSCI World over the past two-year period. As a result we get a beta of 0.76 with a declared variance of 28%. This sensitive parameter was de-levered with the weighted average capital structure of this index and re-levered with the weighted average capital structure of a hand-selected peer group which consists of European real estate developers.

Forecasting assumptions:

Forecasts

The rationale behind our forecast has already been described in the discussion of the profit & loss account (Chapter “Financial Analysis and Discussion”).

DCF Analysis

		Phase 1				Phase 2				Terminal
	2017a	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**	**2023e**	**2024e**	**2025e**	**Value**
in € '000	**Basis**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
Growth		**146.8%**	**54.2%**	**16.7%**	**7.1%**	**2.2%**	**0.9%**	**0.3%**	**0.0%**	**0.0%**
Revenues	**12,077**	**29,806**	**45,956**	**53,624**	**57,429**	**58,686**	**59,206**	**59,359**	**59,357**	**59,357**
EBIT	**1,797**	**5,280**	**10,843**	**15,096**	**16,943**	**17,314**	**17,466**	**17,509**	**17,506**	**17,510**
- adapted Tax on EBIT (e)	0	498	1,022	1,423	1,597	1,632	1,647	1,651	1,650	1,651
+ Depreciation and amortization	455	435	384	581	250	250	250	250	250	250
+ Change in long-term provisions	-101	0	0	0	0	0	0	0	0	0
- Change in net working capital	17,732	-3,394	-18,309	-23,081	-25,737	-26,926	-27,428	-27,461	-27,262	-12,649
- Other non-cash items	-10,300	1,910	0	0	0	0	0	0	0	0
- Capex	12,199	43,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	5,000
= Free Cash Flow*	**-17,480**	**-36,298**	**3,515**	**12,335**	**16,334**	**17,859**	**18,498**	**18,570**	**18,368**	**23,758**
Terminal Value										249,550
Discount factor	n.a.	0.95	0.88	0.81	0.74	0.68	0.63	0.58	0.53	0.53
NPV of Free Cash Flows	**n.a.**	**-34,535**	**3,077**	**9,939**	**12,108**	**12,181**	**11,608**	**10,721**	**9,755**	
NPV of Terminal Value										**132,531**

Valuation		**Proportion of EV**
Result of Future Cash Flows	34,855	**21%**
+ Result of Terminal Value	132,531	**79%**
= Value of the Entity	**167,386**	
+ Cash (as of Dec 31, 2017)	10,317	
- Debt (as of Dec 31, 2017)	69,265	
- Minorities (as of Dec 31, 2017)	1,395	
= Value of Equity	**107,043**	
Current No. of Shares (in '000)	54,272	
Fair Value per Share (Euro)	**1.97**	

* [2018e - 2021e]: may deviate from Cash Flow Statement in section "Financial Analysis and Discussion" due to adapted tax on EBIT

Source: BankM Research

Key Model Assumptions

	Source	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	TV
Riskfree Return*	*Bloomberg*	-0.67%	-0.59%	-0.53%	-0.39%	-0.24%	-0.13%	-0.01%	0.12%	0.82%
Expected Market Return MSCI World, 5y; on € basis)	*Bloomberg*	11.05%	11.05%	11.05%	11.05%	11.05%	11.05%	11.05%	11.05%	11.05%
Market Risk Premium		11.72%	11.64%	11.58%	11.44%	11.29%	11.18%	11.06%	10.93%	10.23%
Sector Beta	Bloomberg	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	1.00
Country Risk Premium (Baltics, mean)	Damodaran	1.19%	1.19%	1.19%	1.19%	1.19%	1.19%	1.19%	1.19%	1.19%
Cost of Equity		**10.43%**	**10.44%**	**10.45%**	**10.47%**	**10.49%**	**10.51%**	**10.53%**	**10.55%**	**12.24%**
Target Weight at market value		48%	48%	48%	48%	48%	48%	48%	48%	48%
Cost of Debt		**7.74%**	**7.74%**	**7.74%**	**7.74%**	**7.74%**	**7.74%**	**7.74%**	**7.74%**	**7.74%**
Target Weight at market value		52%	52%	52%	52%	52%	52%	52%	52%	52%
Tax Shield		9.43%	9.43%	9.43%	9.43%	9.43%	9.43%	9.43%	9.43%	9.43%
WACC		**8.65%**	**8.66%**	**8.66%**	**8.67%**	**8.68%**	**8.69%**	**8.70%**	**8.71%**	**9.52%**

Source: BankM Research

Sensitivity Analysis Terminal Value

		Discount rate of Terminal Value						
		8.00%	8.50%	9.00%	**9.52%**	10.00%	10.50%	11.00%
Growth in Terminal Value	-2.00%	1.82	1.71	1.62	1.52	1.44	1.37	1.29
	-1.00%	2.10	1.96	1.84	1.73	1.63	1.54	1.45
	0.00%	2.44	2.27	2.11	**1.97**	1.86	1.74	1.64
	1.00%	2.87	2.65	2.46	2.28	2.13	1.99	1.87
	2.00%	3.46	3.15	2.90	2.66	2.48	2.30	2.15

		EBIT Margin in Terminal Value						
		27.0%	28.0%	29.0%	**29.5%**	30.0%	31.0%	32.0%
Growth in Terminal Value	-2.00%	1.41	1.45	1.50	1.52	1.54	1.59	1.63
	-1.00%	1.60	1.65	1.70	1.73	1.75	1.80	1.85
	0.00%	1.83	1.89	1.94	**1.97**	2.00	2.06	2.11
	1.00%	2.12	2.18	2.25	2.28	2.31	2.37	2.43
	2.00%	2.48	2.56	2.63	2.66	2.70	2.77	2.84

Source: BankM Research

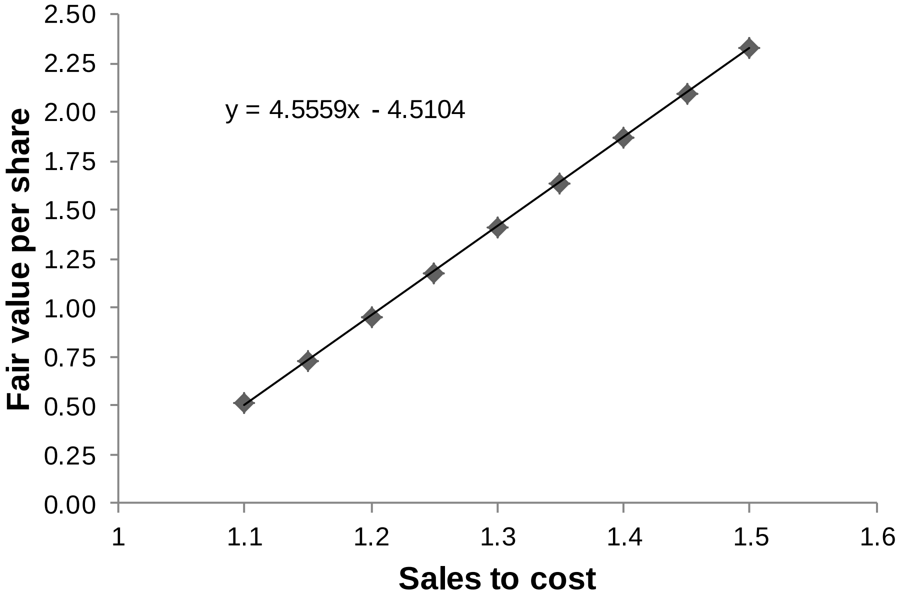
Pro Kapital Grupp AS

Sensitivity towards sales-to-cost ratio

The table below shows the sensitivity of the selling price Pro Kapital can achieve within the real estate market. Historically, i.e. over the past six years, the company was able to sell at a mean of 1.42x costs. This mean is the value we are applying in our DCF analysis. However, since the real estate market is volatile, this ratio may change and hence impact fair value. Depending on the extent of price fluctuations, the fair value per share ranges between €0.51 and €2.33.

Sensitivity to Sales/Cost Ratio

Factor Sales-to-Costs	Fair value per share
1.1	0.51
1.15	0.73
1.2	0.95
1.25	1.18
1.3	1.41
1.35	1.64
1.4	1.87
1.45	2.10
1.5	2.33



Source: BankM Research

Valuation Summary

Our fundamental DCF analysis results in a fair value of €1.97 per share.

Fair Value per share: €1.97

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Responsible for the content of this document: FinTech Group Bank AG (FTG Bank), Frankfurt, Germany.

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Regulatory authority for FTG Bank is the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Straße 108, 53117 Bonn, Germany and Lurgiallee 12, 60439 Frankfurt am Main, Germany.

Issuer of the analysed instruments is Pro Kapital Grupp AS.

Notice regarding previous publications regarding the issuer within the last 12 months:

Analysts	Date	Evaluation Result	Fair Value
Stefan Scharff, CREA, Dr. Roger Becker, CEFA	June 10, 2016	Buy	€3.50
Stefan Scharff, CREA, Dr. Roger Becker, CEFA	October 19, 2016	Buy	€2.50

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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 changes in content.

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3. Date of first publication of this document:

November 16, 2018

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

Closing prices of November 15, 2018

5. Updates:

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