CONCORDE RESEARCH

CEE Equity Research | Hungary | Real Estate
11 March 2020

Appeninn

Recommendation: Under revision (Prev: Accumulate)
Target price 12M: Under revision (Prev: HUF 743)

New Strategy, new hope?

Appeninn released its new strategic presentation as there hass been a reshuffle in both amongst shareholders and the management. The real estate holding continues to operate office and retail assets across the country and aims to rotate its RE portfolio into premium assets, with two new items on its agenda - 1), aim to increase shareholder value 2), enter into the touristic market by developing hotels.

We will dig in the details of the strategy and will update our model and target price with the new assumtptions soon.

Prologue

In the first strategic presentation published in May 2018, the company laid out an ambitious growth plan. According to their guidance GLA (Gross Leasable Area) will more than quadruple by 2022, EBITDA will skyrocket from EUR 4.4 million (2017) to EUR 68 million (by 2022) on the back of large expected revaluation gains, development profits and potential disposals). This strategy relied on two pillars: developing ca. 95,000 sqm (mainly retail units and offices); and purchasing office buildings (69,000 sqm). As for the financing side, Appeninn planned to finance the great expnasion by the combination of capital increase and internal CF.

However, after two months of the publication of the company's strategy, Appeninn took a U - turn and purchased 75% stake of a real estate developer, and via this transaction, the firm gained an indirect possession of a plot ca. 37 ha. and management rights for further ca. 10 ha. in Balatonvilagos – which was inconsistent with its prior strategy. Additionally, the divestment of OPUS (lowering its stake in Appeninn from 19% to 10% in 2019) was also a surprise for investors as they supported Appeninn's strategy a just a year ago. All of these actions made Appeninn's first strategy less credible in our view, leading to such a huge discount to NAVPS.

Financial projections

Appeninn revealed few of its FY KPI's for 2019 and also its projections for the upcoming few years.

Management indicated an increase in GAV by an annual 15% throughout 2022 (probably also implies some yield contractions as well) which will drag EBITDA with itself (CAGR +34%), the increase may arrive from the asset rotation and from the lower extent from the assets at Balaton and last but not least the normalization of EBITDA margin, but we will need some claritiy on that. As for the EBITDA margin improvement, last year was pressured due to the higher employee and transaction cost, which should normalize going forward.

MAIN FINANCIAL KPI'S

		2017A	2018A	2019A	F2020	F2021	F2022	CAGR '19 - '22
GAV	[EUR m]	63	118	150	177	184	228	15%
LTV	(%)	55%	47%	40%	42%	38%	42%	
NAV	[EUR m]	35	55	60	74	70	96	17%
NAVPS	**per share**	**110**	**419**	**613**	**732**	**813**	**943**	15%
P/NAVPS		99%	246%	99%	41%	37%	32%	
Gross Rental Income	[EUR m]	5	7	9	11	11	13,5	14%
EBITDA	[EUR m]	4	3	5	8	9	12	34%
EBITDA margin	(%)	**80%**	**43%**	**56%**	**73%**	**82%**	**89%**	17%
EBITDA on NAV	(%)	12%	5%	8%	11%	13%	13%	15%
EPS*					35	40	57	

*assuming 0% tax and 3% interet cost

Source: Appeninn, Concorde

Opinion

We appreciate adding the shareholder value creation on the agenda, but we need to see real steps towards it. Firstly, we acknowledge the ambitious growth plans, but as long as the share price trades at such a huge discount (-51% in our calculations) to NAVPS (Net Asset Value per Share'19 = 613 per share) it is difficult to give weight to the value creation notion. We believe, right now share – buyback has the highest return on invested capital considering that there is barely any execusion risk, thus it would create the highest value for investor, in our view.

Valuation – wise the 0.41 P/NAVPS may seem attractive, but in our view, we should exclude the value of non-yielding assets from NAVPS to have a better comparison with peers. Appeninn showed the value of the latest assets at the Balaton that amounts to EUR 34 milion, in which the company has 75% stake implying a HUF 180 per share value. In our understanding, those asstes provides some earnings but not much, they should rather serve as an option for developing hotels and other touristic related facilities. Excluding those assets from the total portfolio we arrive to a commercial real estate portfolio of HUF 430 per share implying 72% P / NAVPS valuation multiples vs. 90% of western peers.

We need more clarity on the funding side of the expansion, as Appeninn mentioned that they are considering to become a REIT which would severely limit the funding side as Appeninn would be obliged to pay out 90% of its profit.

We will dig in the details of the strategy and will update our model with the new assumtptions soon.

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Neutral	Total return is expected to be in the range of 10%-(-10%)
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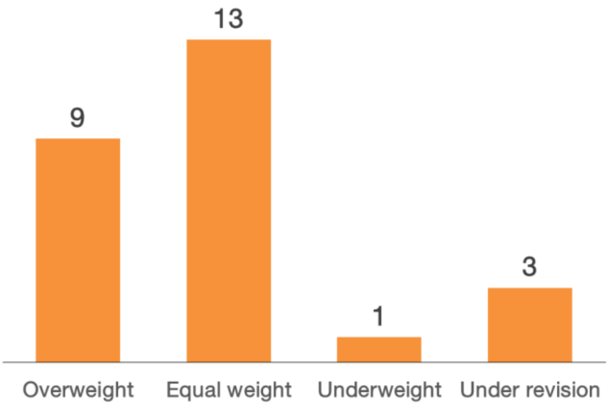
9
13
1
3
Overweight
Equal weight
Underweight
Under revision