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CEE Equity Research | Hungary | Real Estate
01 October 2018

Appeninn

Recommendation: Accumulate
Target price 12M: HUF 743

EUR ths	2018 H1	2017 H1	Ch (%)
Gross rental Income (GRI)	2,700	2,604	4%
Clean EBITDA	955	1.718	-44%
EBIT	944	718	31%
Profit	723	-37	-2055%
FFO1	376	874	-57%
EBITDA margin [%]	35%	66%	-31pps
LTV	54%	64%	-10pps
Gross Asset Value (GAV)	87,408	64,561	36%

Share price close as of 01/10/2018	HUF 580	Bloomberg	APPENINN HB
Number of shares [million]	47.4	Reuters	
Market capitalization [HUF bn/EUR mn]	27 / 88	Free float	42%
Daily turnover 12M [EUR th]	104	52 week range	HUF 442-1,170

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In a transitory period…

- Large administrative costs and personel expenses took its toll on Appeninn's financial figures in H1, but our full year EBITDA forecast is still easily achievable, in our view.

- Numbers were heavily distorted, because large part of the announced acquisitions closed only after H1 (SPAR asset and other two properties), thus income from those assets are missing from H1 report, but transaction & administrative costs (+106% y-o-y; +EUR 260m) and personel expenses (+ EUR 329m vs. EUR 1.4m last year) have already been incurred.

- Although profit turned to black (EUR 723m) from red (EUR - 37m) in a year, it was solely due to the missing large revaluation loss (EUR 1 billion) that occurred in 2017 H1. On the operation side, Appeninn posted a EUR 955 ths clean EBITDA in H1, significantly lower (-44% y-o-y) compared to last year's same period. The reasons are the followings:
    1. Elevated personel cost which has skyrocketed from EUR 1,400 to EUR 329,000 as the number of employees increased from 1 to 18 (Appeninn also appointed new CEO, and deputy CEO as well).
    2. Administrative cost has also climbed substantially partly due to the many corporate events in H1 (+106% y-o-y; +EUR 260,000).

In a nutshell, temporary elevated cost resulting from acquisition cost is part of the growth story in our view, which expenses later on should disappear as Appeninn reaches its desired size (GAV).

- According to the H1 report, Gross Asset Value (GAV) increased by EUR 22 million reaching EUR 87 million, which should further grow in H2 to EUR 101 million as recent acquisitions closes. In the first half year, Appeninn acquired 20 properties and disposed three assets, in our understanding. As a result of portfolio optimization, leverage moderated to LTV 54% vs. 64%.

- Below EBIT, interest expense decreased significantly by 25% to EUR 470,000 from EUR 634,000 a year ago level, thanks to the refinancing of the libailities at a lower interest rates ca. 100 bps lower on our calculations. Furthermore, thanks to favourable FX movement Appeninn booked EUR 359,000 unrealized gain.

- Funds From Operations (FFO) figure dropped below EUR 400,000 implying a ca. 57% decrease rom EUR 874,000 as result of low margin (EBITDA margin 35% vs. 65% last y-o-y) in a year.

- **Opinion:** Although the significant OPEX inflation heavily deteriorated Appeninn financial performance in H1, low EBITDA margin is only temporary, in our view. Revenue from SPAR and two other assets (Andrássy u. 59 and Andrássy u. 105) will support revenue in H2 (+EUR 2.4 million vs current EUR 2.7 million) and also costs related acquisitions should also disappear, enhancing the current 35% EBITDA margin.

  Appeninn provided a pro forma figure in order to show how the financials would have evolved if all of the transactions were to be closed before 2018.01.01. *(see our P&L table below)*. This theoretical set of numbers show similar characteristics to our earnings model assumptions (ie. 65% EBITDA margin).

  Using these pro forma EBITDA numbers (ie. EUR 2.2 million EBITDA would have come from the assets in H1 report according to Appeninn) and assuming similar performance for the rest of the portfolio in H2, Appeninn’s full year EBITDA should arrive to EUR 4.1 million slightly above our EUR 4 million forecast. In light of the underlying operation we maintain our target price and recommendation.

Eventful H1

- We gathered the meaningful corporate events that have occurred with Appeninn since our initiation of coverage:
    1. Retail portfolio expansion has begun. Appeninn announced three transactions regarding the expansion of its retail portfolio, one is a real estate in Miskolc and two plots in Eger and Biatorbágy. Also the company secured long term rental contracts for those properties with ALDI. Appeninn's strategy is to develop ca. 90,000 sqm retail portfolio across Hungary, this growth seems to unfold with these announcements.
    2. Company acquired large plots in Balatonvilágos which could be used to developing touristic related properties and at the same time in line with its strategy to develop ca. 90,000 sqm single tenant units. However, as this direction (eg. touristic related development) is relatively new and management has not announced any modification of the latest strategy, we have not incorporated this business line in our model. Nonetheless, as almost every touristic related statistics in the Balaton region have been increasing, the new direction is encouraging.
    3. BDPST Group purchased ca. 21% stake in Appeninn from Konzum.
    4. Gábor Tomcsányi CEO and Somfalvi Péter deputy CEO joined the management team in august. As both of them has large experience in the real estate market, we expect that the strategy implementation should be gain new dynamic.

- **Market outlook: Investment attitude towards Budapest's Real Estate (RE) market continues to be strong.** Foreign companies remain on the buy side for both office and retail assets in Budapest. To give an example, in mid-September GTC announced an office acquisition (35k sqm) on Váci corridor. On the retail side, NEPI ROCKCASTLE also showed its unfaltering confidence in Budapest RE market and after purchasing Arena plaza (largest shopping centre) they acquired a controlling stake in Mammut as well.

- **Opinion:** Although the significant cost inflation heavily deteriorated Appeninn financial performance in H1, low EBITDA margin is only temporary, in our view. Revenue from SPAR and two other assets (Andrássy u. 59 and Andrássy u. 105) will support revenue in H2 (+EUR 2.4 million) and also costs related acquisitions should also disappear, enhancing the current 35% EBITDA margin.

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ACTUAL AND PRO FORMA PROFIT AND LOSS [EUR THS]

EUR ths	2018 H1	2017 H1	diff (%)	2018 Pro Forma	diff to 2017 H1 (%)
Gross rental income (GRI)	2.700	2.604	4%	5.098	96%
Net rental income (NRI)	1.751	1.867	-6%	4.149	122%
Administrative costs	- 504	- 244	107%	- 504	107%
Personel costs	- 329	- 1	23429%	- 329	23429%
Other income / expenses	48	507	-91%	48	-91%
Revaluation gain / loss		- 1.000		-	-100%
Capex expenses	- 11	- 410	-97%	- 11	-97%
EBITDA	**955**	**718**	**33%**	**3.353**	**367%**
DD&A	- 11	-		- 11	
EBIT	943	718	31%	3.341	365%
Net financials	- 111	- 727	-85%	- 111	-85%
EBT	833	- 9	-9053%	3.231	-34838%
Tax	- 110	- 28	287%	- 350	1131%
Profit	**723**	**- 38**	**-2017%**	**2.881**	**-7742%**
EBITDA margin	35%	28%		66%	
LTV	54%	64%		60%	

Source: Appeninn, Concorde

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Accumulate	Total return is expected to be in the range of 10-20%
Neutral	Total return is expected to be in the range of 10%-(-10%)
Reduce	Total return is expected to be in the range of -10-(-20%)
Sell	Total return is expected to be lower than -20%
Under Revision	The stock is put Under Revision if covering analyst considers new information may change the valuation materially and if this may take more time.
Coverage in transition	Coverage in transition rating is assigned to a stock if there is a change in analyst.

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Valuations and risks:

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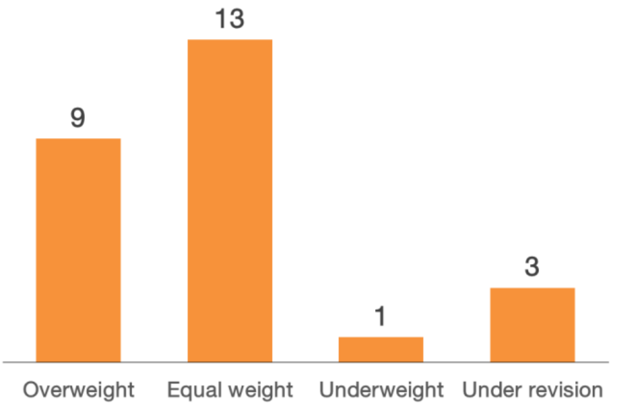
SUMMARY OF CONCORDE'S RECOMMENDATIONS


13
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1
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