CONCORDE RESEARCH

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13 April 2021

Appeninn

Recommendation: Under revision

Target price 12M: Under revision

EUR ths	2020	2019	Ch (%)
Gross rental Income (GRI)	7,356	7,402	-1%
EBITDA	20,530	13,796	49%
Clean EBITDA	4,597	4,584	0%
Profit	13,201	12,115	9%
FFO1	1,655	2,049	-19%
EBITDA margin [%]	62%	62%	1%
Debt [EUR m]	117	109	3%
EPS [HUF]	100	92	9%

Share price close as of 13/04/2021	HUF 294	Bloomberg	APPENINN HB
Number of shares [million]	47,4	Reuters	
Market capitalization [HUF bn/EUR mn]	16 / 42	Free float	23%
Daily turnover 12M [EUR th]	104	52 week range	HUF 280-450

Shifting exposure comes at a cost

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- **Scope downgraded Appeninn's bond outlook to B with stable outlook because strategic shift to developing toursitc properties comes with different risk profile and because interest coverage ratio deteriorated.**
- **Only revaluation saved the bottomline, excluding that Appeninn would have posted ca. EUR 2.7m loss, on our calculation**
- **FFO (proxy for operating CF) deteriorated by ca 20%** on our calculation to EUR 1.6 million largely thanks to the increase in interest expense by 25% y-o-y to EUR 2.7 million.
- **Due to the limited visibility on future earnings of the touristic related assets, we left our recommendation and target price under revision.**

Financial performance: Although headline numbers look relatively good with **profit** arrived at EUR 13.2 million (+9% y-o-y) (HUF EPS 100), excluding the non-cash revaluations items (EUR 15.9m), **bottom line should have been in the red EUR -2.7m. GRI** (Gross Rental Income) remained flat, despite the fact that Appeninn's tenants are SMEs, but trade receivables increased by 52% which might indicate some financial difficulties at tenants, but at this point its seems manageable. Clean EBITDA that excludes non cash revolution remains also flat on EUR 4.6 m, while FFO (EBITDA – tax- interest expenses) fell by 25% to EUR 1.6 million.

Asset value - NAV (Net Asset Value) grew by ca. EUR 5 million to EUR 78 million (NAVPS 595) on a yearly comparison as Total Asset value increased more (EUR +32 million) than net debt (EUR + 17 million). Value of Investment properties increased by ca. 25 million to EUR 173 million on the back of the combination of new additions and revaluations. *Please see the details below.* Excluding the touristic related assets (mainly ongoing construction and plots) CRE (Commercial Real Estate) portfolio is valued at EUR 117 million where the average yield is around 8%, the remaining part of the portfolio worth ca. EUR 55 million.

CHANGE IN GROSS ASSET VALUE IN 2020

[EUR ths]	
New additions	44,929
divestment	- 12,900
net revaluation	2,859
reclassification for sale	- 10,118
net increase in GAV	**24,770**
GAV 2020 [eoy]	172,440

Source: Annual report

SIMPLIFIED P&L AND OTHER KPI'S

EUR ths	2020	2020H1	2019	2019H1	2018	2017	y-o-y
Gross rental Income (GRI)	7,356	4,268	7,402	4,660	5,776	4,933	-1%
EBITDA	20,530	11,392	13,796	4,059	19,022	4,407	49%
clean EBITDA*	**4,597**	**1,871**	**4,584**	**2,289**	**2,498**	**2,906**	**0%**
EBIT	20,269	11,377	13,724	4,034	21,712	4,403	48%
Net financials	- 5,346	- 3,901	- 2,021	6,807	- 2,207	- 1,114	165%
EBT	14,661	7,646	11,703	10,837	19,505	3,290	25%
Profit	13,201	6,435	12,115	10,514	17,379	2,549	9%
EBITDA margin	62%	44%	62%	49%	43%	59%	1%
FFO1	1,655	185	2,049	1,236	682	1,728	-19%
* excluding revaluations							
net debt [EUR m]	95	90	78	78	58	28	22%
debt [EUR m]	120	109	114	81	61	37	5%
Investment properties [EUR m]	172	148	148	148	118	63	16%
NAV [EUR m]	78	75	73	70	62	32	7%
LTV	55%	61%	53%	52%	49%	45%	
FFOPS1 [EUR]	0.03	0.00	0.04	0.03	0.01	0.04	
FFOPS1 [HUF]	12.8	1.4	14.7	8.5	4.8	13.1	
FFO yield	3.9%	0.4%	4.2%	2.4%	1.1%	2.2%	
P/NAVPS	0.50	0.57	0.66	0.69	0.99	2.46	

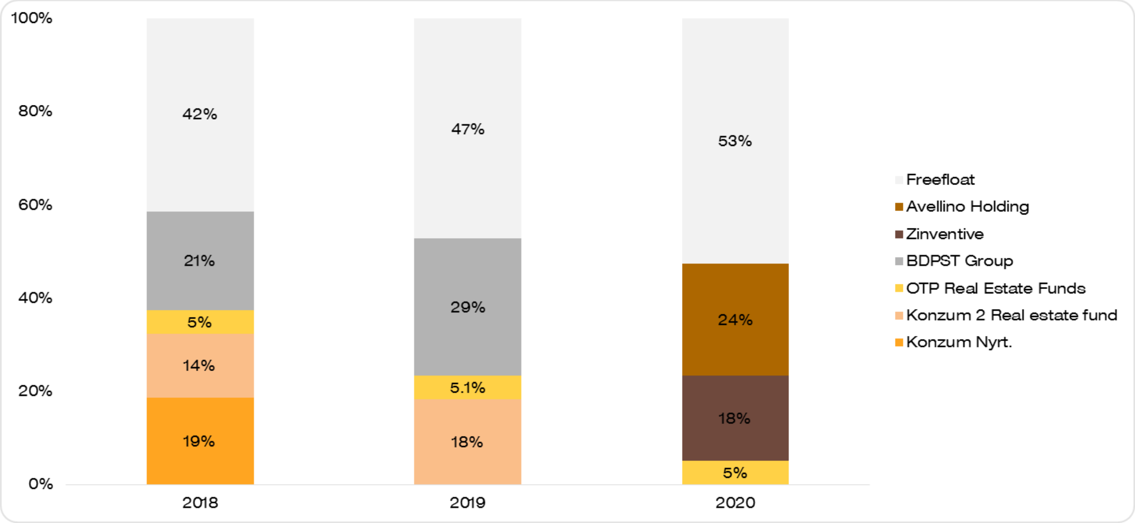
Source: Appeninn 2020FY report, Concorde

- **Credit profile indeed deteriorated.** Net debt to clean EBITDA climbed to 21x vs 17x in 2019. EBITDA interest coverage was above 2x in 2019 while this metric also came down to 1.6x based on last year's financial metric. Additionally, short term liabilities that amounts to EUR 25 million could not be covered by the available cash reported in the end of 2020 (EUR 22 million). However that large short term liability is (EUR 19 m) a non-refundable state grant (Kisfaludy 2030) therefore liquidity can be considered be adequate.

- **Strategic outlook:** In released its strategic outlook released in March 2020 where Appeninn set out a grandiose growth plan in which the company planned to enter into the touristic segment by developing hotels, and at the same time continues to rotate its asset portfolio into premium category. Half year later, Tamás Bernath former CEO of Appeninn has left the company leaving its strategy – released in March – in question.

- While we believe that by the time the hotels are completed (planned to finish after 2022), the tourism by and large should recover in our view, and therefore it is not a great risk. However the uncertainty regarding the ever-changing shareholder structure of the company and management may raise question about the execution of the strategy. We are looking forward to hear from the new CEO a confirmation whether the latest (March) strategy is still intact and any information on the touristic assets.

SHAREHOLDER STRUCTURE IN THE END OF 2020



Source: Appeninn 2020FY report, Concorde

- **Valuation - wise:** Appeninn trades at 50% discount to its net asset value per share.Due to the limited visibility on future earnings of the touristic reated assets we left our recommendation and target price under revision.

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