WOOD & COMPANY

Graphisoft Park

Hold

Initiation of coverage

Price: HUF 3,570
Price target: HUF 3,734

A premium space for a premium price

Graphisoft Park is the owner and manager of a unique office park, situated in a tranquil location by the Danube riverside in northern Budapest. Its distinctive selling point is its low building density and focus on offering a quality work environment for its tenants, a mixture of international and local R&D, IT and innovative SME and start-up companies. The park consists of 61,000 sqm lettable area, and is nearly fully occupied. Together with parking, the effective rents stand at around EUR 15/sqm; that is, some 15-25% above the effective rents in A-grade office space in the established office hubs outside the central business district. The rental income should reach EUR 10.5m in 2017E, growing to EUR 13.5m by 2019E, on our figures. We see the FFO at EUR 8.3m and EUR 10.7m in 2017E and 2019E, respectively. On the current share price, this represents a 7-9% FFO yield on our 2017-19E figures. We view these as reasonable levels. However, considering that we see downside to management's NAV estimate (from next year onwards, properties will be valued by external appraisers), we believe that the room for further rerating is limited. Nor does the dividend yield seem to suggest substantial upside. At around just 3%, it is much lower than Atrium's, but is comparable with that offered by GTC and CA Immo, both of which, however, offer better growth profiles and diversification, in our view. As we see the company as fairly valued, we initiate our coverage of Graphisoft Park with a HOLD rating, putting a 12M price target (PT) at HUF 3,734/share.

We like the business model, and we were quite impressed when we visited the park at the end of November 2017. Its long relationships with key tenants, such as SAP and Microsoft, suggest that companies are happy to pay premium rents to keep their employees happy. A number of the realtors we have interviewed agreed that this is indeed the case.

However, we see downside for the FV of the portfolio. If we apply a 6.5% yield to our estimated annualised rental income at the end of 2018E, and value the remaining landbank at EUR 250 per sqm of buildable area, we arrive at a FV of EUR 220m for the portfolio by YE18E, some 18% below management's FV estimate as of 3Q17. Consequently, we pencil in the NAV at EUR 138m as of the end of 2018E, vs. EUR 195m as of the end of 3Q17. We see the company trading at around 83% on our revised 2018E NAV.

We value the company using a combination of a DCF, a DDM and a peer multiples valuation. Our DCF arrives at a 12M PT of HUF 3,706/share; our DDM is at HUF 3,565/share; and our peer valuation suggests HUF 3,930/share. We use a WACC of 5.1-5.4% and a COE of around 7%.

Key risks include: high tenant concentration; flooding; slower-than-expected progress with the decontamination of the northern development area; an economic downturn; FX fluctuations between HUF and EUR; oversupply on the office market; and an increase in capitalisation rates and borrowing costs.

Key triggers include: growth of monthly rents above EUR 16/sqm; further developments of new premises; and the external appraisal arriving at a higher fair value than we expect.

Expected events

Annual report	March 2018
AGM	April/May 2018
1Q18 results	May 2018
Ex-dividend	May 2018
Completion of new development	mid-2018
2Q17 results	August 2018

(all dates are indicative WOOD's estimates)

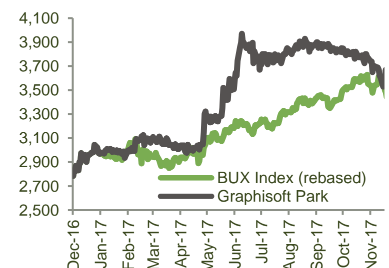
Key data

Market Cap	EUR 122m
Free float	36%
Shares outstanding	10.08m
3M ADTV	EUR 30,000
Major Shareholders	
Mr. Gábor Bojár	32%
Concorde/HOLD AM	16%
AEGON	10%
Reuters Code	GSPAEUR.DEp
Bloomberg Code	GSPARK HB Equity
BUX Index	38,228

Price performance

52-w range	2,785-3,970
52-w performance	29%
Relative performance	6%

Graphisoft 12M share price performance



Year	EBITDA (EUR m)	Net profit (EUR m)	FFOPS (EUR m)	FFO yield (EUR)	Net debt/ equity	Total debt/ standing assets	P/BV	NAV (EUR m)	NAVPS (EUR)	P/NAV	Div yield
2014	7.7	2.0	0.62	10.7%	1.8x	25%	260%	116	11.52	0.50x	5.2%
2015	8.9	3.0	0.73	9.8%	1.5x	23%	327%	116	11.55	0.64x	2.7%
2016	8.7	3.2	0.75	7.9%	1.9x	24%	408%	143	14.19	0.67x	2.4%
2017E	9.3	4.2	0.82	7.1%	2.3x	23%	462%	196	19.40	0.60x	3.2%
2018E	11.2	3.6	0.97	8.4%	0.5x	32%	84%	138	13.72	0.84x	2.8%
2019E	12.2	4.2	1.06	9.2%	0.5x	31%	82%	142	14.04	0.82x	3.3%

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Closing Prices as of 13 December 2017

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Investment case

Graphisoft Park is the owner and manager of a unique office park, situated in a tranquil location by the Danube riverside in northern Budapest. The park consists of 61,000 sqm lettable area, and is nearly fully occupied. Together with parking, the effective rents stand at around EUR 15/sqm, some 15-25% above the effective rents in A-grade office space in the established office hubs outside the central business district (CBD). We expect the rental income to reach EUR 10.5m in 2017E, growing to EUR 13.5m by 2019E, driven by developments that are under way in the southern area of the park. We expect the FFO to reach EUR 8.3m and EUR 10.7m in 2017E and 2019E, respectively. On the current share price, this represents a 7-9% FFO yield on our 2017-19E figures. We view these as reasonable levels. However, considering that we see downside for management's NAV estimates (from next year onwards, properties will be valued by external appraisers), we believe that the room for a further rerating is limited. Nor does the dividend yield seem to suggest substantial upside. At just around 3%, it is much lower than Atrium's, but is comparable with that offered by GTC and CA Immo, both of which, in our view, offer better growth profiles and much better diversified portfolios, however. We view the company as fairly valued. As such, we initiate our coverage of Graphisoft Park with a HOLD rating, with a 12M price target (PT) of HUF 3,734/share, some 5% above the current levels.

We like the business model, and we were quite impressed when we visited the park this November. Its long relationship with key tenants, such as SAP and Microsoft, suggests that they are willing to pay a premium to the market to keep their employees happy. A number of realtors that we have interviewed agreed that this is indeed the case. In its presentation, the company pointed out that the monthly rents at Graphisoft Park are around EUR 3/sqm above the other A-class offices in the city (outside the CBD). With c.15sqm of office area per employee, the extra expense translates into c.EUR 45 per month, per employee. Graphisoft estimates that the total cost of an employee of a high-tech firm is around EUR 2,250/month. As such, the extra expense is just around 2% of the total cost per employee, on the company's estimates.

However, we see downside for the portfolio's FV. Currently, the portfolio's fair value is estimated internally. The properties are booked at historical cost in the balance sheet. Starting from next year, the properties are going to be valued externally, and the company will start to record them at FV in its books. On the portfolio valuation, we are somewhat more conservative than management, especially when it comes to the valuation of the landbank. We apply a 6.5% yield to our estimated annualised rental income at the end of 2018E, and we book the remaining landbank at EUR 250 per sqm of buildable area. Thus, we arrive at an FV of EUR 220m for the portfolio by YE18E. That is some 18% below management's estimate of FV of investment properties as of 3Q17. Consequently, we pencil in the NAV at EUR 138m as of the end of 2018E, vs. EUR 195m as of the end of 3Q17. We see the company trading at around 83% on our revised 2018E NAV.

A landlords' market, but the incoming wave of supply is likely to put a cap on further rental growth. The total modern office stock in Budapest amounts to c.3.35m sqm. The vacancy spiked in the aftermath of the crisis. Over the past three-to-four years, economic growth has picked up, and so did the leasing activity. Combined with the lack of new developments, available space declined sharply, and vacancy on the market compressed to 7.6% by the end of 3Q17. Supply is to increase, however. There are around 500-600,00 sqm of GLA scheduled for completion by the end of 2019E. With rising construction costs, the actual volumes may be lower, however. Even so, even with around half of the pipeline reportedly already pre-leased, vacancy is bound to increase, in our view. Given the strong demand for space, new, quality projects should not struggle to attract tenants. However, the wave of supply is likely to increase the pressure on the owners of the older, B- and C-class premises. Increasingly, these will be competing mostly on price, putting effective rents in the segment under pressure, in our view. We do not believe that this would directly affect Graphisoft (as its quality premises are competing with A-grade space). However, we believe it will limit the scope for rent increases. The leading realtors are quoting the prime office yield in the city at 6.0% currently – we use 6.5% to value Graphisoft's assets.

We value the company using a combination of a DCF, a DDM and a peer multiples valuation. Our DCF arrives at a 12M PT of HUF 3,706/share; our DDM at HUF 3,565/share; and our peer valuation suggests HUF 3,930/share. We assign equal weights to all three methods, arriving at a blended 12M PT of HUF 3,734/share, some 5% upside to the current share price. We use a WACC of around 4.4% and a COE of around 5.5%.

Key risks include: high tenant concentration; flooding; slower-than-expected progress with the decontamination of the northern development area; an economic downturn; FX fluctuations between HUF and EUR; oversupply on the office market; and an increase in capitalisation rates and borrowing costs.

Key triggers include: the growth of monthly rents above EUR 16/sqm; further developments of new premises; and the external appraisal arriving at a higher fair value than we expect.

Valuation

Graphisoft Park has seen a very strong performance, returning 22% ytd and 103% over the past three years, outperforming the EPRA Developed Europe index by 81% since the end of 2014. Despite the outperformance, it is still trading at what we view as a reasonable FFO yield, of around 7-9%, on our 2017-19E figures.

Currently, the company trades at 0.4x discount to its last reported NAV. However, as we highlight in this report, we see downside risk to the value of assets – on our revised 2018E NAV, the company trades at a mere 16% discount. This is far below the levels it has traded at historically.

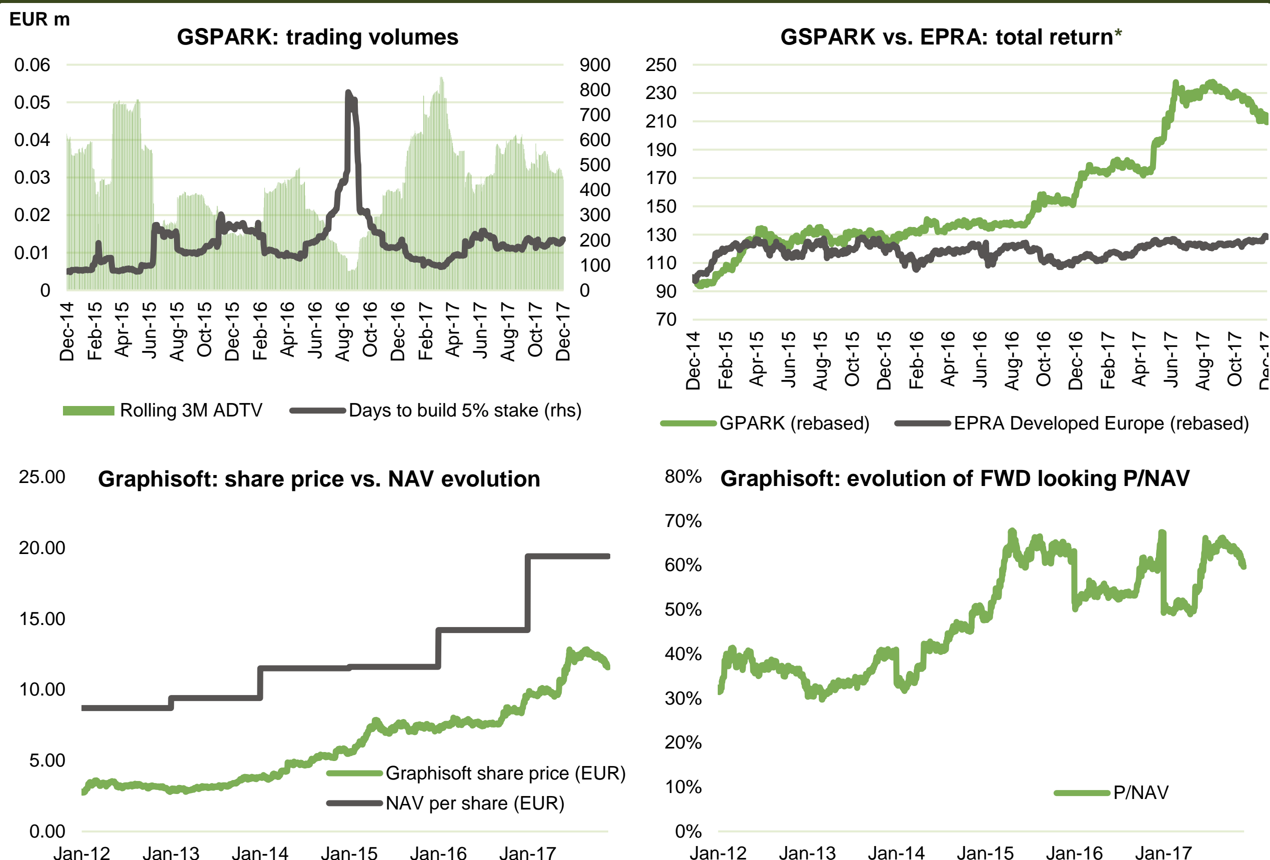
Plugging our forecasts into our valuation, we arrive at a 12M PT of HUF 3,734/share, which offers some 5% upside.

Graphisoft: setting our 12M PT at HUF 3,734/share

Valuation method	Weight	Per share (EUR)
Peer multiples	33%	3,930
DDM	33%	3,565
DCF	33%	3,706
Weighted average target value		**3,734**
Current price		**3,570**
Upside/(downside)		5%

Source: WOOD Research

Graphisoft Park: 3M ADTV of c.EUR 30,000, trading at a c.40% discount to NAV and a c.7.2% 2017E FFO yield



*Source: Bloomberg, company data, WOOD Research; *EPRA Developed Europe tracks European listed real estate universe*

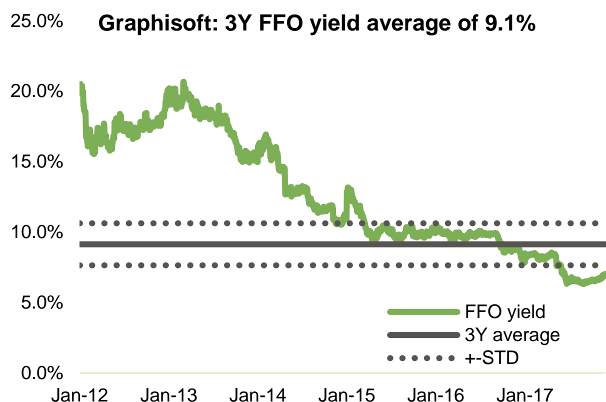
Graphisoft: relative valuation sets 12M PT at HUF 3,930/share

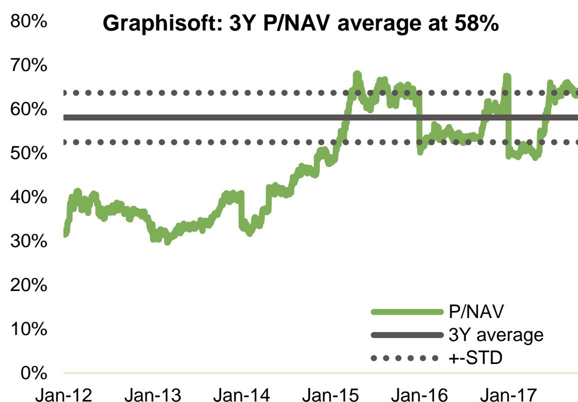
We compare Graphisoft to its peers on one- and two-year-forward FFO yields and P/BVs. We use its CEE peers for comparison: Immofinanz, S-Immo, GTC, CA Immo and Atrium.

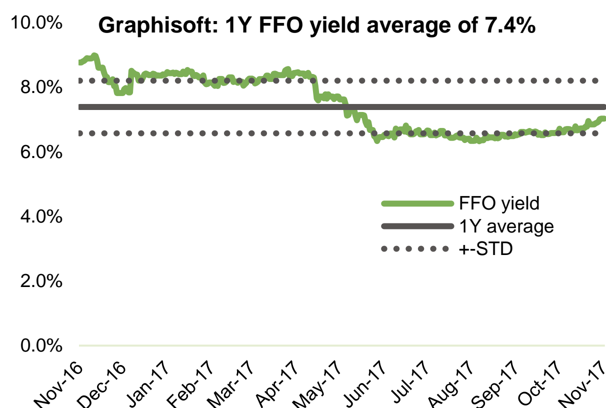
Combined, Graphisoft's peers have been trading at 91% and 88% price to consensus 1Y and 2Y FWD BVs for the past 12 months, on average. As we lack a consensus for Graphisoft, we look at how the company has been trading relative to its actual, ex-post reported figures. We use our own forecasts for the 2017E figures. We see that Graphisoft has been trading, on average, at 58% and 80% price to book on 1Y and 2Y FWD BVs, respectively, trading 33ppts and 8ppts below its peers on 1Y and 2Y forward multiples, respectively.

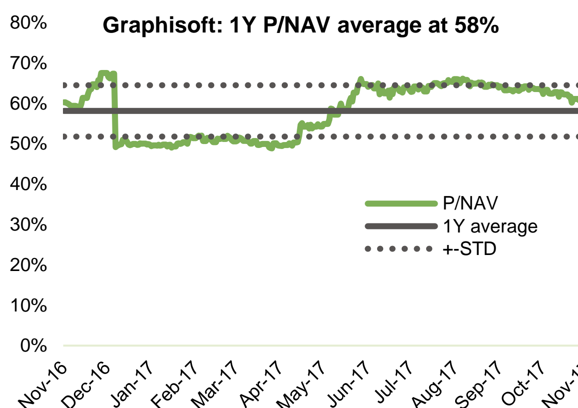
Graphisoft's peers are trading at 5.0% and 5.5% on 1Y and 2Y FWD FFO yields, on the Bloomberg consensus. Graphisoft is trading at 7.2% and 8.5%, e.g., at some 2.4ppts and 2.9ppts higher yields than the consensus on a 1Y and 2Y FWD basis.

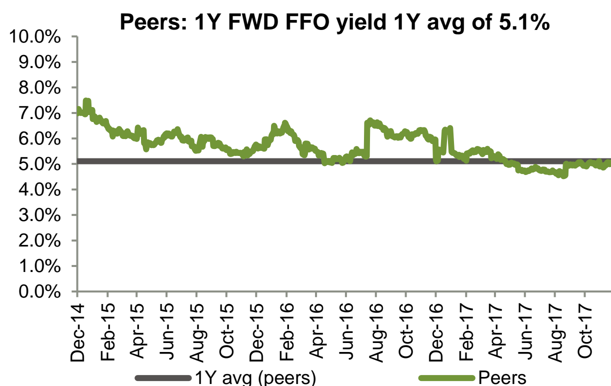
Graphisoft: relative valuation

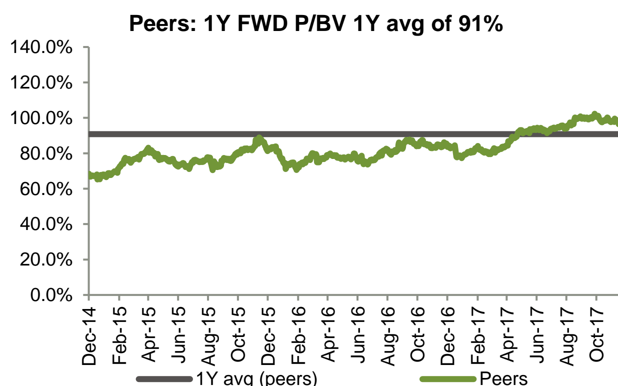












*Source: Bloomberg, WOOD Research; *peers include GTC, Immofinanz, S-Immo, CA Immo and Atrium*

Graphisoft Park: overview of peer group valuation

	Price (LCU)	Mkt Cap (EUR m)	P/BV 17E	P/BV 18E	Divi yield 17E	Divi yield 18E	FFO yield 17E	FFO yield 18E
Graphisoft Park	3,570	121	59%	83%	3.2%	2.8%	7.2%	8.5%
Immofinanz	2.0	2,263	77%	78%	3.7%	10.9%	1.6%	3.6%
S Immo	14.8	993	112%	108%	2.8%	3.1%	6.9%	5.7%
GTC	9.9	1,104	125%	116%	4.9%	5.3%	4.2%	5.1%
CA Immo	24.6	2,435	100%	96%	3.1%	3.5%	4.8%	5.2%
Atrium	4.1	1,527	79%	78%	9.0%	7.6%	7.3%	7.7%
CEE peer group average			**99%**	**95%**	**4.7%**	**6.1%**	**5.0%**	**5.5%**

	NAVPS 17E	NAVPS 18E	FFOPS 17E	FFOPS 18E
Our forecast (EUR/sh)	19.40	13.72	0.82	0.97
peer group current multiple	99%	95%	5.0%	5.5%
Peer group 1Y average multiple	91%	88%	5.1%	5.9%
Graphisoft Park 1Y average	58%	80%	7.5%	8.8%
1Y avg Premium/(Discount) to peers	-33%	-8%	-2.4%	-2.9%
Implied price (EUR/sh)	**12.7**	**12.0**	**11.1**	**11.6**

Average implied price from P/BV	12.3
Average implied price from FFO yield	11.4
Average implied price	11.9
12M PT (EUR/sh)	**12.7**
12M PT (HUF/sh)	**3,930**
Graphisoft Park current share price	3,570
Upside	10%

Source: WOOD Research

Our relative valuation approach results in a 12M PT of HUF 3,930/share for Graphisoft Park, some 10% above the stock's current trading levels.

DCF – 12M PT of HUF 3,706/share

We have based our DCF model on the following assumptions:

- ✓ A cost of equity starting at 7.2% in 2018E, declining gradually to 6.6% by 2027E, calculated using a base assumption of a risk free rate of 3.0%, which is the average for the yield on 10Y Hungarian bonds for the past 12 months. This is lower than the 3.5% risk free rate we use for Hungary in the valuations of all our other CEE RE companies across our coverage universe, as it reflects the recent decline in the yield on Hungarian bonds.
- ✓ We use a beta of 0.9x, trending down gradually to 0.8x. We have blended Damodaran's emerging unlevered beta corrected for cash for REITs and for Real Estate (General/Diversified), which we have subsequently adjusted for the capital structure.
- ✓ Using our estimated cost of debt of 2.0%, we arrive at a WACC range of 5.4-5.1%.
- ✓ We use 1.5% terminal growth rate, to reflect that, as the concentration on one area and already charging premium rents, further growth potential may be limited.
- ✓ We note that the majority of the EV lies in the terminal value, which makes it very sensitive to a handful of input parameters. To see the impact of these parameters, we include our sensitivity analysis on the following pages.

Our DCF approach results in a **12M PT of HUF 3,706/share for Graphisoft.**

Graphisoft Park: DCF sets 12M PT at HUF 3,706/share

EUR m	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
FFO I	**9.8**	**10.7**	**10.6**	**10.6**	**10.6**	**10.5**	**10.5**	**10.4**	**10.4**	**10.4**
Adjustments for										
taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
net interest costs	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Adj EBIT	11.2	12.2	12.1	12.1	12.1	12.0	12.0	12.0	11.9	11.9
tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
NOPLAT	**11.2**	**12.2**	**12.1**	**12.1**	**12.1**	**12.0**	**12.0**	**12.0**	**11.9**	**11.9**
Capex	-19.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1
WC change	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flows	**-7.9**	**8.1**	**8.0**	**8.0**	**8.0**	**7.9**	**7.9**	**7.9**	**7.8**	**7.8**
Discount Factor	0.94	0.89	0.85	0.80	0.76	0.72	0.69	0.65	0.62	0.59
PV of FCF	-7.5	7.2	6.8	6.4	6.1	5.7	5.4	5.1	4.9	4.6
SUM of FCF	45									
Terminal Value Growth	1.5%									
Terminal Value	215									
PV of terminal value	126.5									
Enterprise Value	**171**									
Less Net Debt (2017E)	58.5									
Less Minorities	0.0									
Fair value of equity	**113**									
Shares Outstanding (ex. treasury and employee)	10									
Fair value of equity per share (EUR)	**11.2**									
12M PT (EUR/sh)	**12.0**									
12M PT (HUF/sh)	**3,706**									
Price per share (HUF)	3,610									
Upside/(downside)	3%									

Source: WOOD Research

Graphisoft Park: overview of our WACC calculation

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Assumptions used for RFR and ERP										
HU RFR	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
HU ERP	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Company's capital structure										
Cash	6	10	12	15	18	20	22	24	27	29
Total Debt	77	77	77	77	77	77	77	77	77	77
Total Equity	138	142	144	147	149	152	154	156	158	160
Total Capital Outstanding	216	219	222	224	227	229	231	233	235	237
[A] Debt/Capital Ratio (%)	36%	35%	35%	35%	34%	34%	33%	33%	33%	33%
[C] Equity/Capital Ratio (%)	64%	65%	65%	65%	66%	66%	67%	67%	67%	67%
Cost of Debt:										
Marginal Cost of Debt (%)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
x Marginal Tax Rate (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
[B] Cost of Debt (post tax) (%)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Cost of Equity:										
Unlevered beta corrected for cash	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61
Unlevered beta	0.60	0.59	0.58	0.57	0.57	0.56	0.55	0.55	0.54	0.54
Beta	0.93	0.91	0.89	0.87	0.86	0.85	0.83	0.82	0.81	0.80
x Equity Risk Premium (%)	4.2%	4.1%	4.0%	3.9%	3.9%	3.8%	3.7%	3.7%	3.6%	3.6%
+ Risk Free Rate (%)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
[D] Cost of Equity (%)	7.2%	7.1%	7.0%	7.0%	6.9%	6.8%	6.8%	6.7%	6.7%	6.6%
[A x B] + [C x D] = WACC:	5.4%	5.3%	5.3%	5.3%	5.2%	5.2%	5.2%	5.2%	5.1%	5.1%

Source: WOOD Research

Graphisoft Park: sensitivity analysis of DCF-derived PT to key WACC inputs

Price target sensitivity to BETA and ERP (both are denoted as absolute change in bps)

ERP \ BETA	-0.40	-0.30	-0.20	-0.10	0.00	0.10	0.20	0.30	0.40
100.00	5,777	4,815	4,058	3,445	2,938	2,511	2,146	1,831	1,554
75.00	5,980	5,012	4,247	3,626	3,111	2,677	2,305	1,983	1,701
50.00	6,193	5,220	4,448	3,819	3,296	2,854	2,475	2,146	1,857
25.00	6,417	5,441	4,662	4,025	3,494	3,044	2,657	2,321	2,026
0.00	6,653	5,674	4,889	4,245	3,706	3,248	2,854	2,510	2,208
-25.00	6,903	5,923	5,132	4,480	3,933	3,467	3,065	2,714	2,405
-50.00	7,167	6,187	5,392	4,734	4,179	3,705	3,294	2,936	2,619
-75.00	7,447	6,469	5,671	5,006	4,444	3,962	3,544	3,177	2,853
-100.00	7,744	6,770	5,970	5,301	4,732	4,242	3,815	3,441	3,108

Relative change

ERP \ BETA	-0.40	-0.30	-0.20	-0.10	0.00	0.10	0.20	0.30	0.40
100.00	56%	30%	9%	-7%	-21%	-32%	-42%	-51%	-58%
75.00	61%	35%	15%	-2%	-16%	-28%	-38%	-46%	-54%
50.00	67%	41%	20%	3%	-11%	-23%	-33%	-42%	-50%
25.00	73%	47%	26%	9%	-6%	-18%	-28%	-37%	-45%
0.00	80%	53%	32%	15%	0%	-12%	-23%	-32%	-40%
-25.00	86%	60%	38%	21%	6%	-6%	-17%	-27%	-35%
-50.00	93%	67%	45%	28%	13%	0%	-11%	-21%	-29%
-75.00	101%	75%	53%	35%	20%	7%	-4%	-14%	-23%
-100.00	109%	83%	61%	43%	28%	14%	3%	-7%	-16%

Price target sensitivity to cost of debt and RFR (both are denoted as absolute change in bps)

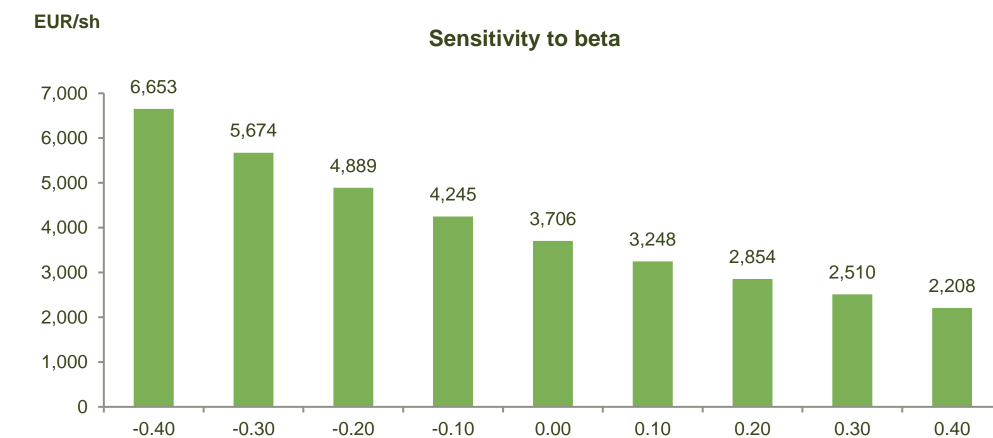
RFR \ Cost of debt	-100.00	-75.00	-50.00	-25.00	0.00	25.00	50.00	75.00	100.00
200.00	2,406	2,322	2,240	2,161	2,085	2,011	1,940	1,871	1,803
150.00	2,774	2,677	2,583	2,493	2,405	2,321	2,239	2,161	2,084
100.00	3,202	3,088	2,979	2,874	2,773	2,676	2,582	2,492	2,404
50.00	3,706	3,572	3,443	3,319	3,201	3,088	2,978	2,873	2,772
0.00	4,310	4,148	3,994	3,847	3,706	3,571	3,442	3,319	3,201
-50.00	5,048	4,849	4,660	4,481	4,311	4,149	3,994	3,847	3,706
-100.00	5,970	5,720	5,484	5,261	5,050	4,851	4,662	4,482	4,312
-150.00	7,160	6,833	6,529	6,243	5,976	5,724	5,487	5,264	5,053
-200.00	8,754	8,310	7,901	7,522	7,170	6,842	6,536	6,250	5,981

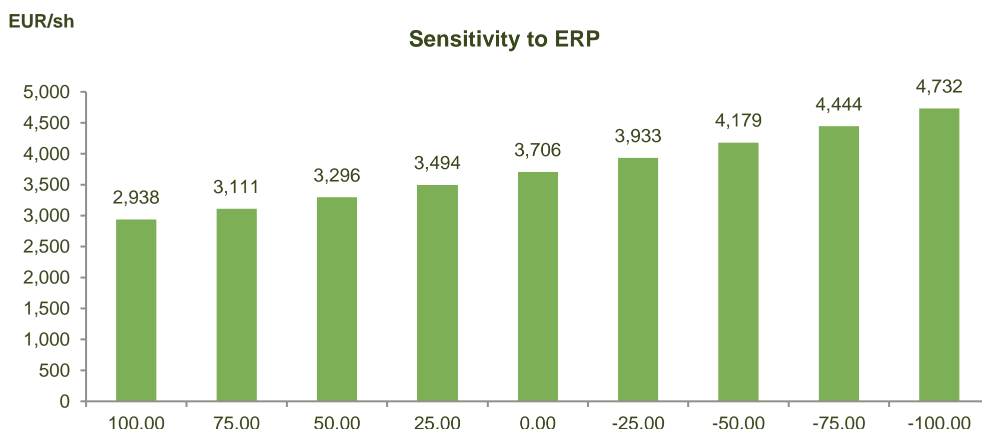
Relative change

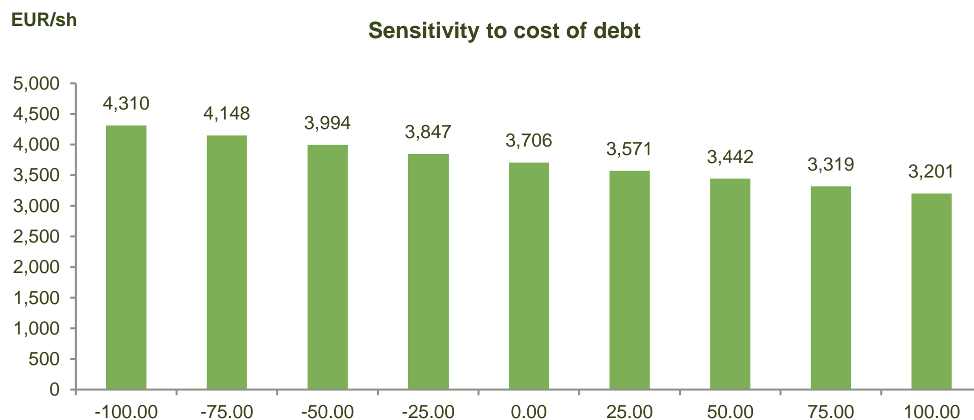
RFR \ Cost of debt	-100.00	-75.00	-50.00	-25.00	0.00	25.00	50.00	75.00	100.00
200.00	-35%	-37%	-40%	-42%	-44%	-46%	-48%	-50%	-51%
150.00	-25%	-28%	-30%	-33%	-35%	-37%	-40%	-42%	-44%
100.00	-14%	-17%	-20%	-22%	-25%	-28%	-30%	-33%	-35%
50.00	0%	-4%	-7%	-10%	-14%	-17%	-20%	-22%	-25%
0.00	16%	12%	8%	4%	0%	-4%	-7%	-10%	-14%
-50.00	36%	31%	26%	21%	16%	12%	8%	4%	0%
-100.00	61%	54%	48%	42%	36%	31%	26%	21%	16%
-150.00	93%	84%	76%	68%	61%	54%	48%	42%	36%
-200.00	136%	124%	113%	103%	93%	85%	76%	69%	61%

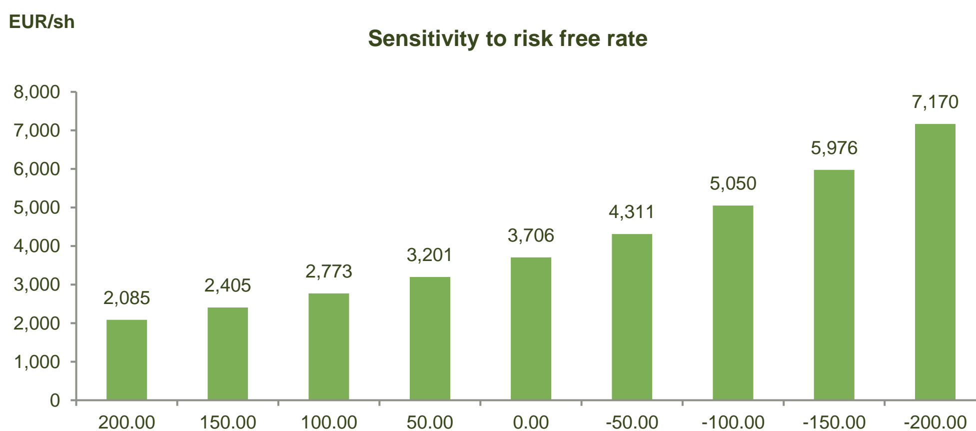
Source: WOOD Research

Graphisoft Park: sensitivity analysis of DCF derived PT to key WACC inputs (cont.)









Source: WOOD Research

DDM sets PT at HUF 3,565/share

The third valuation method we use to value Graphisoft Park's shares is the dividend discount model (DDM), which sets the 12M PT at HUF 3,565/share, broadly on a par with the company's current share price.

Our key assumptions are:

- ✓ A cost of equity of around 7%, the same as we use in our DCF, as illustrated in the table above, with a risk free rate of 3.0% and an equity risk premium of 4.5%.
- ✓ An leveraged beta of 0.8-0.9x, derived from the unlevered sector betas, adjusted for cash, taken from Damodaran's database.
- ✓ A terminal value growth rate of 1.5%.
- ✓ We expect the dividends to be paid in the second half of May.

Similarly to the DCF, a large part of the valuation lies in the terminal value. As we included the sensitivities in the DCF, we omit them here. However, as with the DCF, it is advisable to keep in mind that a small shift in a few input parameters would have a substantial impact on the derived PT.

Graphisoft Park: DDM sets PT at HUF 3,565/share

EUR m	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
FFO (prev. year)	8.3	9.8	10.7	10.6	10.6	10.6	10.5	10.5	10.4	10.4
Payout ratio	50%	40%	39%	37%	38%	38%	39%	40%	41%	41%
Dividends	3.77	3.28	3.82	3.92	4.00	4.08	4.14	4.20	4.25	4.30
Dividends per normal share	0.36	0.31	0.36	0.37	0.38	0.39	0.39	0.40	0.40	0.41
Discount factor	0.97	0.90	0.84	0.78	0.73	0.68	0.64	0.59	0.56	0.52
Present value per share	0.35	0.28	0.30	0.29	0.28	0.26	0.25	0.24	0.23	0.21
Present value of dividends	2.69									
Terminal value growth	1.5%									
Terminal value PV per share	8.1									
Total PV of equity per share	10.8									
12M PT (EUR/share)	**11.5**									
12M PT (HUF/share)	**3,565**									
Price per share (HUF)	3,610									
Upside/(downside)	-1.2%									

Source: WOOD Research

Risks

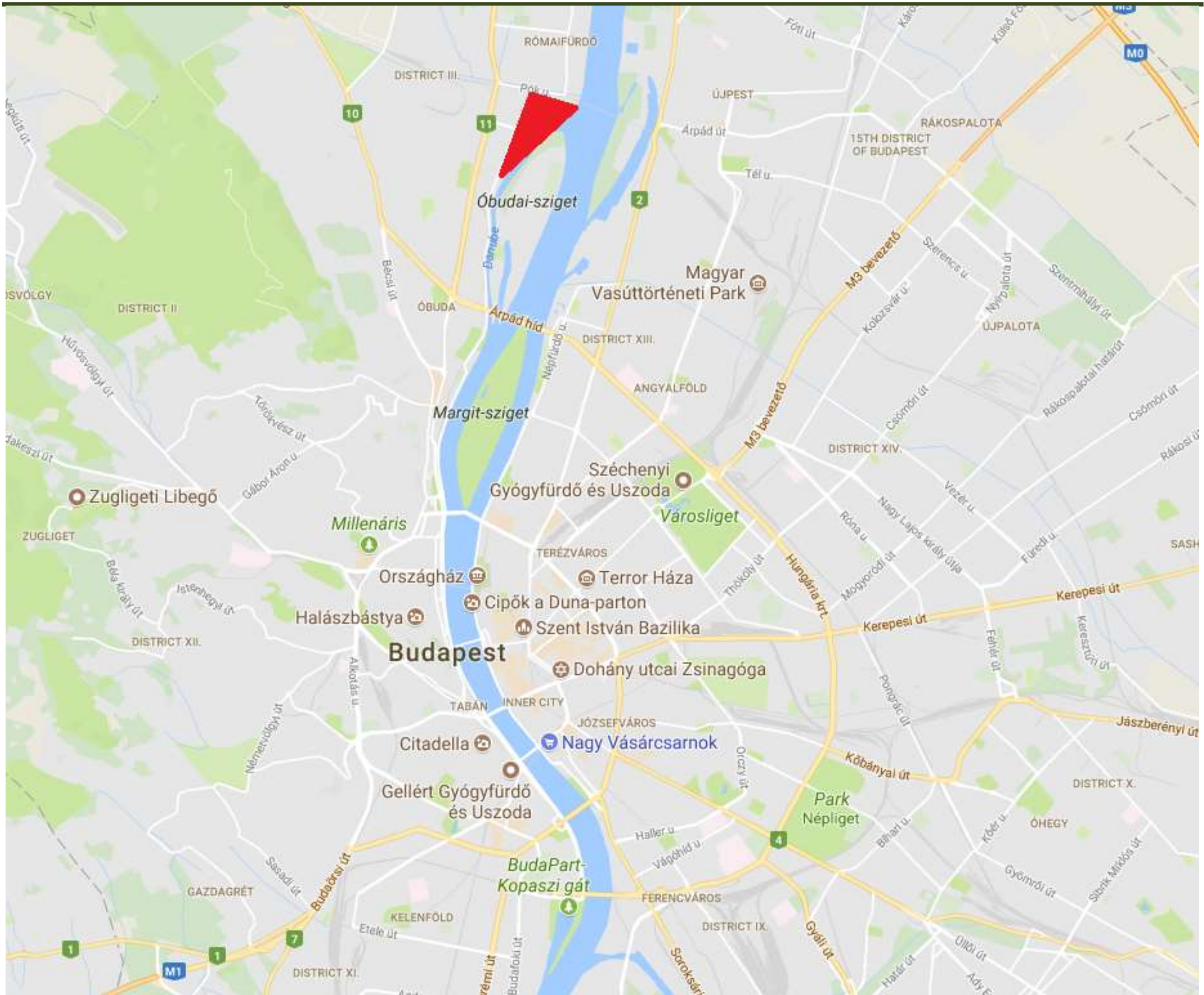
- ✓ **Flooding.** Located on the banks of the river, the buildings may be damaged in the case of a flood. However, thus far, the protections in place have managed to secure the portfolio even against the historically highest flood levels.
- ✓ **Tenant concentration risk.** SAP, the largest single tenant, generates around 30% of Graphisoft Park's entire revenue. Clearly, SAP's exit would completely change the investment case. However, given the strong historical relationship (12 years of business history), and the long outstanding length of the contract (10Y), we believe that the risk of SAP's exit should be minimal in the short- to mid-term, especially as the company is expanding its presence in the park currently.
- ✓ **The northern development area is contaminated.** According to the company's presentation, the site was polluted by its former owner, the Gasworks, which should begin the clean-up of the site at some point next year. While, thus far, there is sufficient room for expansion in the southern area of the office park, should the clean-up take an exceedingly long time, at a certain point, this may present a hurdle to the expansion potential of Graphisoft Park. Until the area is de-contaminated, we would see it as appropriate to assign the area a certain discount (with respect to the BV of land per sqm).
- ✓ **Economic downturn, resulting in lower demand for office space, or a sudden spike in supply putting the occupancy under pressure.** In the mature office markets, such as Austria and Germany, the office market dynamics are closely linked to the underlying macroeconomic performance of the respective countries. The more dynamic office markets of the CEE capitals are also often distorted by sudden waves of supply, potentially putting rents and vacancy rates under pressure, even during times of strong underlying economic performance. As such, while any substantial deterioration in the macroeconomic backdrop may adversely affect the occupancy and rental income (as was the case during the previous downturn). Similarly, however, several years of elevated supply may also put the tenants in a more advantageous negotiating position. Thanks to its unique product, Graphisoft should be able to continue to command a certain premium, in our view. However, if the rents fell across the market, we believe it is unlikely that Graphisoft would manage to buck the trend.
- ✓ **FX fluctuations of the HUF relative to EUR.** The company presents its results in EUR, which is the currency in which rents are contracted. Most of its costs, however, are incurred in forints, to our understanding. We do not expect to see any large currency fluctuations in the near future. However, we do highlight that a sudden, dramatic depreciation of the HUF against the EUR (in the range of tens of percentage) would put tenants under pressure, and the FX risk may be shared between the tenant and the landlord in some form of short-term amendments to the rent agreements. On the other hand, significant strength in the HUF may result in a higher cost base (in EUR terms); however, we would expect that, in the long run, this may allow Graphisoft Park to increase the rents somewhat.
- ✓ **Capitalisation rates.** Currently, the gap between property cap rates and the borrowing costs remains high. We believe that financing costs for a secured loan on a standing, A-class office may stand at around 200-250bps currently. We believe that this should provide a sufficient degree of comfort, potentially even leading to a continued compression of the headline prime yields a notch below 6.0%. However, we believe that the consensus among the market participants is that there remains a certain mental block with respect to the older buildings. Even offices in mint condition, with strong, blue-chip tenants and long outstanding WAULTs are thus not trading below 6.75%, or certainly not below a 6.5% yield, based on the information we managed to gather. Rather, we would expect to see such assets trading at around 7.0-7.5%. In many markets, prime yields are either approaching, or have reached, their all-time lows. While potentially not at a dramatic pace, we believe that the market consensus suggests that the yields may start to expand across Europe, within the next 24-36 months. Graphisoft books its standing assets at a 6.5% yield. In the current market, we believe this is a reasonable figure. However, we believe that, should we see a combination of high office supply and gradual yield expansion, the capitalisation rate used for the valuation of the properties may need to be revised higher. In broader terms, larger yield expansion would likely trigger revaluation losses, which would increase the leverage ratios, *ceteris paribus*. At such a juncture, the pressure may be exacerbated by the growing borrowing costs, due to the increase in the reference rate.

Company description: provider of a unique work environment

Graphisoft Park owns and operates a 61k sqm GLA office cluster located in the northern part of Budapest, on the west bank of the Danube, as illustrated in the map below. The office park focuses on R&D, IT, and innovative SMEs and start-ups. Its distinctive selling point is its low building density and its focus on offering a quality work environment. Situated in a tranquil location by the Danube riverside, with plenty of greenery, the ambience of the park is miles away from the hustle and bustle of inner city locations.

The key tenants include some of the leading multinational companies, such as SAP (the biggest tenant), Microsoft and Canon. Graphisoft, a Hungarian software developer, is the founder, former owner and original first tenant of the park. Part of the premises is leased to the International Business School (IBS, offering undergraduate and postgraduate degrees in English), and there is also a dormitory, where the students and employees can rent rooms.

Graphisoft Park: the red triangle denotes an approximate location of the office park



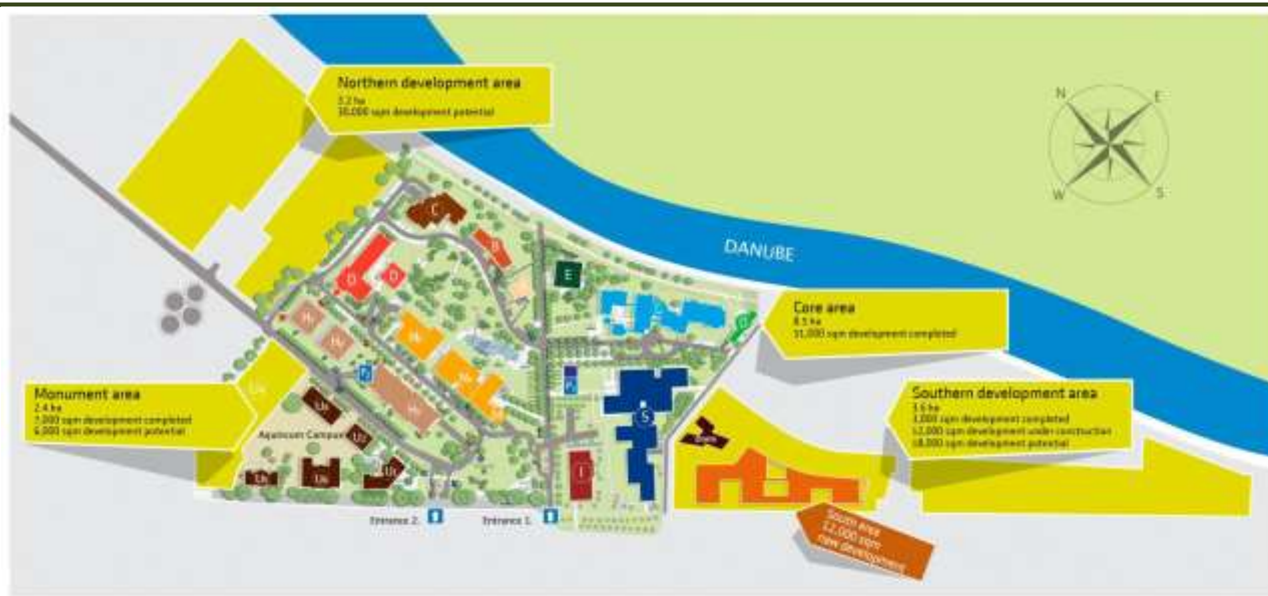
Source: Google Maps, WOOD Research

The company's business case is a simple one – Graphisoft Park provides a unique, high-quality work environment, designed to appeal to a talented and ambitious workforce. For this, the company charges premium rents. The tenants have historically paid around EUR 3/sqm higher rents than the market level for A-class office space in the rest of the city, outside the CBD. The office park is nearly fully occupied, suggesting that the tenants see the premium as justified.

Graphisoft Park owns a landbank, which allows for the completion of up to 54k sqm of GLA, according to the company's estimates. As such, the company is well-positioned to accommodate the expansionary needs of its tenants, provided they are voiced sufficiently in advance.

The following picture illustrates the layout of the park. The areas that allow for future development are highlighted in yellow. The company is finishing a new development currently (12.5k sqm of office GLA and underground parking for 450 cars) in the southern area, highlighted in orange. The northern development area is contaminated by its former owner, Gasworks, which is expected to start the clean-up of the site in 2018E.

Graphisoft Park: layout of the office cluster



Source: Company data

Ownership structure and corporate governance

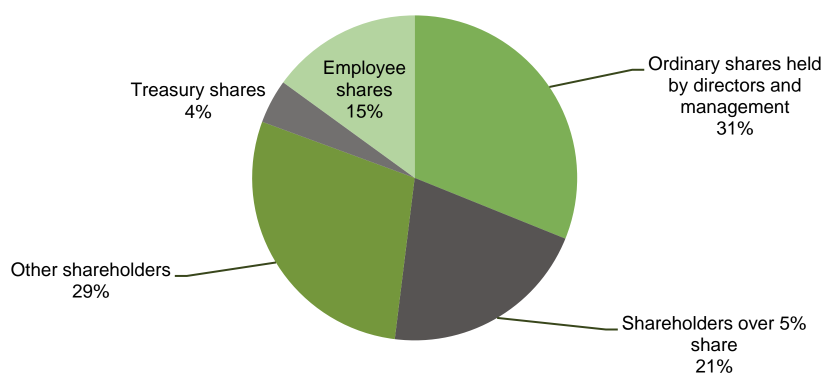
Graphisoft Park's share capital is divided among 10,631,674 ordinary class "A" shares and 1,876,167 class "B" employee shares. To our understanding, employee shares bear voting rights, as well as the right to one-third of the dividend the normal shares receive; however, they can never become vested.

The company also holds c.0.5m treasury shares.

The remaining portion of the outstanding, A-class shares is distributed as follows:

- ✓ 3.9m are held by directors and management (the largest part of which, some 3.2m shares, are held by Mr. Boján Gábor, Chairman of the BoD and founder of the Graphisoft software development company).
- ✓ 2.6m shares are held by two large shareholders, Concorde (now HOLD, 1.6m) and AEGON (1.0m).
- ✓ 3.6m are held by other shareholders, whose holdings do not exceed 5%.

Graphisoft Park: ownership structure as of the end of 3Q17



Source: Company data, WOOD Research

As Mr. Hajba, Graphisoft's former CFO, stepped down from his position as of 31 October 2017, the 0.6m employee shares he owned previously were redeemed by the company.

Management (excerpt from a CV available on Graphisoft Park's website)

János Kocsány, CEO, graduated as an architect, and also acquired post-graduate degrees in economics and real estate management, and an MBA. In 1981, he began his career in the building industry as a site manager and held several on-site construction positions. Mr. Kocsány specialised in the computerisation of building processes. He worked on the Tengiz Gas Refinery Plant project, a large-scale development in Kazakhstan, managed by Hungarian experts. In 1994, Mr. Kocsány started working in the real estate industry as an investment manager, responsible for complex development projects. He

joined Graphisoft R&D in 1996 and has been responsible for developing, leasing and operations at Graphisoft Park. Mr. Kocsány has been the CEO of Graphisoft Park SE since 2006, when the company was transformed into an independent real estate development company listed on the Hungarian Stock Exchange.

Board of Directors

The BoD can consist of a minimum of five and a maximum of 11 members. Currently, it has six members. As per the following table, the mandate of all of the members expires at the end of May 2018.

Composition of Graphisoft Park BoD (as of the end of September 2018)

Name and position	From	Until
Bojár Gábor - Chairman of the BoD	21-Aug-06	31-May-18
Dr. Kálmán János - Member of the BoD	21-Aug-06	31-May-18
Kocsány János - Member of the BoD, CEO	28-Apr-11	31-May-18
Dr. Martin-Hajdu György - Member of the BoD	21-Jul-14	31-May-18
Szigeti András - Member of the BoD	21-Jul-14	31-May-18
Hornung Péter – Member of the BoD	20-Apr-17	31-May-18

Source: Company data, WOOD Research

Accounting policies

Value of assets

Unlike the other real estate portfolio owners and managers under our coverage, Graphisoft Park books the investment property (along with other tangible assets) at historical cost, less accumulated depreciation and impairments. According to our understanding, the company intends to start booking the assets at fair value in its financial statements starting from next year. This means that the fair value of its assets will start to be reviewed by external, third-party appraisers – to date, the company has provided management's estimate of the fair value of the portfolio, using the income approach, valuing the portfolio on a quarterly basis using a DCF.

As we discuss in greater detail in the section on the portfolio valuation, we believe that the fair value estimate may be reviewed downwards from the present levels.

In its guidance, management suggested that the P&L will continue to include a depreciation expense, even as the assets will start to be booked at fair value. We find this rather counterintuitive, as none of the companies under our coverage (all of which book their properties at FV) book (a substantial) depreciation expenses in their IFRS P&Ls. However, as we want to present the P&L in the same structure as the company, we opt to keep the depreciation in, as it is just an accounting technicality and does not affect either the FFO or the FCF.

However, in order to keep the properties booked at FV (and avoid having our equity/NAV declining gradually as a result of the depreciation expense), we offset the depreciation expense directly into the consolidated equity as an accumulated valuation reserve.

We also expect the first step-up in value, when it moves from historical cost to fair value accounting, to be booked directly to equity, without any big revaluation movement affecting the P&L in 2018E.

Currency

The company presents its results in EUR, which is the currency in which rents are contracted. Most of the costs, however, are incurred in forints, to our understanding. With respect to the translation, the company uses annual average and year-end exchange rates for the translation of items in its income statement and balance sheet, respectively. The resulting changes are recognised directly in consolidated equity, as an accumulated translation difference.

REIT designation

On 14 July 2017, Graphisoft Park's General Meeting approved the board's proposal to apply for SZIT designation (which is the Hungarian acronym for a regulated real estate investment company).

The key features of the new legal structure are the tax benefits. The company will be exempt from corporate income tax and local business tax, as well as the preferential 2% property acquisition duty rate. The company will also need to pay out at least 90% of its annual taxable income to shareholders via a dividend.[1] As we continue to include the depreciation charge in our P&L forecasts, we simply use our forecast IFRS P&L as a basis for the minimum 90% payout.

[1] We did not manage to confirm with management whether the minimum 90% payout ratio will be applicable to the dividend from the 2017E profit. We assume so, but we do not know for certain. If it does not, and management sticks with the historical c.30% payout of FFO I, the dividend from the 2017E profit would be some 30% below our estimate.

So far, Graphisoft has fulfilled the requirements to be registered as a SZIE, a regulated real estate pre-company (effective as of 31 July 2017). According to the 9M17 report, the tax benefits should be triggered from the day of registration.

The company expects to sign up for the SZIT (REIT) designation at some point in 2018E.

Historical performance and our key forecast assumptions

Rental income and FFO in the past two years and 9M17

Graphisoft Park's results are very stable, and we believe there is relatively good visibility on its performance going forward.

In both 2015 and 2016, the company reached around EUR 9.5m of rental income, and generated EUR 7.3m and EUR 7.6m in FFO, respectively, with overhead expenses amounting to around EUR 1.0m during the period. This translates into a FFOPS of around EUR 0.73/share and EUR 0.75/share in 2015 and 2016, respectively.

In the past two years, the company has paid out around one-third of its FFO I as a dividend. Going forward, we expect the dividend (as a share of FFO I) to increase to around 40%, in order for the company to comply with the minimum 90% payout requirement, imposed by the conversion to a REIT. However, we are not sure whether the 90% minimum payout ratio applies from the 2017E profit.

In the first 9M17, the company generated EUR 7.8m in rental income and some EUR 6.2m in FFO, on our reconciliation. This is some 9% and 13% higher, respectively, than the comparable period last year. We believe the increase is attributable predominantly to the ongoing development activities in the park. In February 2017, Graphisoft delivered a new 5.5k sqm wing directly adjacent to SAP's main building. The start-up building, which is located near the entrance to the park and offers some 2.5k sqm, was delivered in mid-2017, along with parking for 300 cars.

Going forward, we expect rents at around EUR 15.6/sqm and occupancy at a stable 98%

Going forward, we expect Graphisoft to complete the 12,500 sqm new development in the southern area of the park, including parking for 450 cars. We expect the development to start to contribute to revenues in mid-2018E, and to be be 80% let during the first six months of operations.

As we are not aware of any concrete, imminent expansion plans, we do not include any additional developments in our model. We believe it would be appropriate to price these in only once the company decides to go ahead with a particular project. As such, our growth of rental income forecasts for 2018E-19E are mainly a function of the full contribution of the new development in the southern area, along with an expected improvement in occupancy. On our estimates, the overall vacancy increases from 1% at the end of 2017E to 4% at the end of 2018E, due to the below-average occupancy in the new addition to the portfolio. We expect that, from 2019E-onwards, the occupancy will reach 98%, where it remains throughout our forecast period.

As such, we expect the rental income to stabilise at EUR 13.5m annually from 2019E-onwards. With a 73.5k sqm portfolio, which, on our estimates, should be 98% occupied, this translates into average rents of EUR 15.6/sqm per month. We believe that this level is reasonable, as it seems to be slightly higher than the rent level seen in recent years.

Graphisoft Park: stable rents at around EUR 15/sqm per month

	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Occupancy	97%	98%	100%	100%	100%	100%	100%	99%	99%
Area (sqm)	53,000	53,000	53,000	53,000	53,000	53,000	58,500	58,500	61,000
Rental income (EUR m)	2.32	2.34	2.40	2.39	2.36	2.36	2.47	2.65	2.63
Monthly rents (EUR/sqm)	15.0	15.0	15.1	15.0	14.9	14.8	14.1	15.3	14.5

Source: WOOD Research

In the past couple of months, the average rent may have been distorted slightly by the timing of the completions. However, as illustrated in the following table, the rents are broadly stable over time, having stood at EUR 14.9/sqm during the 24 months between 3Q15 and 2Q17, on average. This includes the parking fees – as the company does not break down the revenue between the offices, parking, campus and dormitory, we simply treat all as one package.

We believe that modelling rent increases above EUR 16/sqm would be too aggressive

In light of the historical results, we believe that our estimate for stable rents at around EUR 15.6/sqm is a fair one. While we acknowledge that the rent levels include indexation, already standing well above the effective market levels, we believe that the room for further growth is rather limited. Also, having looked at the evolution of the rents in the broader market, while there is certainly visible volatility, we do not see any decisive upward trend over the longer horizon.

Even in the current strong landlords' market, the rents are not above the levels seen during the market peak a decade ago. As the supply of new space scheduled for the next two-to-three years is well above the levels of the past five years, we believe the upward pressure on rents is likely to ease.

An increasingly large number of buildings located in the established office locations are likely to offer attractive, modern premises. Certainly, we believe that the calm location and low building density of the park will remain a competitive advantage of Graphisoft relative to the broader market. However, as the quality of the competition office buildings improves, the perceived quality differential the Graphisoft park offers to its new tenants relative to the competition may be lower than it has been in the past.

In our view, the key weakness would be the location, as the park is quite far from the city centre. Unless one lives in the north of the city, this makes the park potentially time consuming to reach, unless travelling by car. We believe that this feature may offset some of the park's appeal, especially among the younger employees, many of whom may not own their own vehicles.

As such, we would like to see evidence of a strong performance before we would feel comfortable modelling growth of the average rents beyond EUR 16/sqm per month.

Capex – around EUR 500-600 per sqm invested every 10 years

Around half of the portfolio (by area) was constructed more than 10 years ago. However, we get the impression that the buildings were constructed at above-market quality. Thanks to its features, such as brick walls, the buildings may require comparatively lower maintenance costs relative to the other stock of a similar age in the city.

On the other hand, we believe that Graphisoft Park's mission is to provide the highest quality premises to attract and retain the best talent in the business. As such, we expect the company to continue to invest in its portfolio, to maintain the buildings in mint condition.

In our model, we expect Graphisoft to reinvest around 2.0% of the FV of the assets into the business on a running basis. This includes not only maintenance capex, but should also account for any fit-out costs that Graphisoft Park may provide to both its existing and new tenants. This amounts to around EUR 560 per sqm of existing space spent once every 10 years.

Overhead expenses

We expect the overhead costs to amount to around EUR 1.5m in 2017E (comprising c.EUR 1.0m of employee costs and EUR 0.5m of other operating expenses). We expect them to be mostly flat in 2018E, as we forecast a continued increase in employee costs (as a result of the broader wage pressure in the economy) to be offset by a decline in other expenses to their run-rate level (historically, these have stood at around EUR 0.3m annually). In 2019E, we expect around a 7% increase still, driven mainly by broader wage pressure. From then onwards, we increase the overheads in line with the inflation expectations for the Eurozone.

Financing

As of the end of 3Q17, Graphisoft had total debt of EUR 60m. The net debt stood at EUR 57m, putting the net LTV at 23%, if calculated using management's fair value estimate for the portfolio.

We expect that, by the end of 2018E, the total debt will amount to EUR 77m, while the net LTV at around 32% and the equity ratio at around 61%.

Of the total debt as of the end of 3Q17, EUR 34m has been provided by Westdeutsche ImmobilienBank AG, another EUR 14m by Erste Bank Hungary Zrt., and EUR 12m by UniCredit.

- ✓ **Westdeutsche ImmobilienBank loan.** There was EUR 34m outstanding as of the end of 3Q17. The loan is secured, EUR-denominated and expires in 2019. The interest is partly fixed, partly floating, according to Graphisoft Park. In light of the recent low interest rate environment, Graphisoft annnounced that, on 30 November 2017, it had secured a new, EUR 40m, 10Y loan from Erste Bank Hungary Zrt., which it plans to use to refinance the existing facility by Westdeutsche ImmobilienBank. According to the press release, the company also entered into an interest rate swap over the duration of the loan, meaning that the interest rate is fixed for the entire term. We expect that, in 2018E, the financing costs may be somewhat higher, a result of the breakage fees we would expect to see with connection to the Westdeutsche loan facility.
- ✓ **The original EUR 14m loan with Erste.** This is part of a revolving credit facility made available by Erste to Graphisoft Park. It was closed on 28 December 2015 with a 10Y maturity. Part of the RCF is denominated in EUR (EUR 3m) and part in HUF (HUF 4bn). Accordingly, Graphisoft has a cash flow hedge agreement to limit the FX exposure. The hedge covers the entire loan amount until the expiration.
- ✓ **The EUR 12m loan from UniCredit.** Up to a EUR 24m, 10Y secured RCF, closed on 18 December 2016. As of the end of 3Q17, EUR 14m was drawn, which is EUR 12m at the amortised initial fair value. The primary purpose of the facility is to finance the ongoing development in the southern area of the park.

Overview of the portfolio and discussion of the fair value

Portfolio description

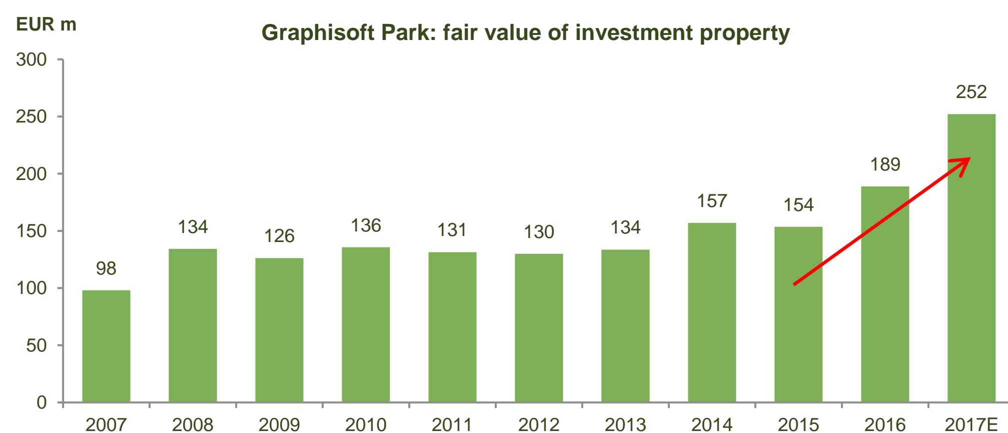
As of the end of 3Q17, Graphisoft estimated the FV of its property portfolio at EUR 252m. This includes:

- ✓ **Completed:** 61,000 sqm GLA of office, laboratory and educational space, and 1,550 parking spaces.
- ✓ **Under construction:** a new office complex under development currently in the southern development area, consisting of 12,500 sqm of office space and parking for around 450 cars. The development is due for completion in mid-2018E, and half of the new space is to be leased by SAP.
- ✓ **Landbank:** as highlighted on the picture on page 13, the remaining northern and southern development areas should allow for the construction of around 36,000 and 18,000 sqm GLA, respectively. Management has indicated that the company does not plan any substantial speculative construction, and that future expansion will be predominantly a function of the expansion needs of existing (and new) tenants.

To-date, Graphisoft has booked its properties at cost in its balance sheet. As such, the company has not used external appraisers to assess the value of the portfolio. From 2018E-onwards, it plans to record its properties at FV in its financial statements. We do not expect this to result in a large one-off revaluation movement in the P&L, as we expect the result to be booked directly to equity (however, we have not managed to confirm with the company whether this will be the case).

Management has increased the fair value of the assets substantially over the course of 2017. It is up by around 33% vs. year-end 2016, and up some 64% compared with YE15. In the 3Q17 report, management attributed the increase to *"the finalisation and filling up with tenants the new buildings in the first seven months of the year; progression in the developments in the southern development area; and significant decrease in the yields in the Budapest real estate market (we* (management) *calculated with yield of 6.5% instead of 6.75% in case of buildings and 7.5% instead of 7.75% in case of development areas). Our* (management's) *valuation also considers the Company's registration as a regulated real estate investment company (pre-company) and the consequent tax advantages (exemption from corporate income and local business tax)".*

Value of the investment property has increased by over 60% since YE15



Source: WOOD Research

Recently, the company has started to provide a more detailed breakdown of the individual components of the fair value. As of the end of 3Q17, the FV of the office park stood at EUR 155m and the campus was booked at EUR 17m, while the parts under construction (net of costs to completion) amounted to EUR 44m. The development areas were booked at EUR 36m.

Graphisoft Park: fair value breakdown

EUR m	3Q17
Office park	154.57
Office park (under construction)	61.70
Campus	17.48
Buildings	**233.75**
Development areas	**36.47**
Fair value	**270.21**
Cost to completion of buildings under construction	-18.14
FV for financial reporting purposes	**252.07**

Source: WOOD Research

We assign a lower value to the landbank, at this stage

Assuming that the development areas include only the remaining land, on which an additional 54k sqm may be built in future, this would value the landbank at around EUR 675 per sqm of buildable area. If this is the case, we believe the land valuation is quite aggressive.

Thanks to the below average density of buildings, we see why the value per sqm of buildable area may be somewhat higher than what we would normally assume in other Budapest office hubs. However, the park is not centrally located within the city. While valuing land is notoriously difficult, we would pencil the FV of land at around 200-400 per sqm of buildable area. Taking into account that part of the landbank needs to be decontaminated before construction can commence, we would be compelled to stick with the lower end of the estimate, for the time being.

We do not quite understand what is included in the office park under construction. The costs to completion are expected at EUR 18m. This broadly corresponds to the amount left to be invested to the latest 12.5k sqm expansion in the southern development area (into which c.EUR 10m has been invested already to date). This is also the only active development management described in the 3Q17 report. However, the amount (net of the remaining costs to completion) is too high to include just this building (c. EUR 44m vs. c. EUR 10-15m for the asset). As such, we believe that some of the developments completed earlier in the year (8,000 sqm of new office space and a three-level underground parking facility for 300 vehicles) may be also included in this category.

If we assume it is the case, we can calculate the value per sqm of the completed, standing area. We combine the value of the office park, office park under construction and campus, and compare it with the expected GLA of the entire office park upon completion of all the existing developments (as by then, all the costs to completion would be presumably invested). Dividing EUR 234m by the 73,000 sqm of office space gives us a FV of EUR 3,200 per sqm of GLA. The amount includes 2,000 parking spaces, however, as the company does not break down income from renting of buildings and from renting of parking spots, we can simply assume these are one entity, and the income generated by parking is implicitly included in the office rent.

If we assume that the rental income stands at around EUR 15/sqm, at EUR 3,200 per sqm, the standing assets would be booked at a 5.6% yield, assuming full occupancy. As noted above, management states that it is using a 6.5% yield to value the properties.

In the following table, we start with the fair value of the assets (as the company started to publish the breakdown of the individual components only recently) and illustrate how the yield on the standing portfolio would evolve under different assumptions for the value of the landbank. We calculate the yield on the rental income in that particular year. Thanks to the timing of the completions, this may understate the yield per sqm somewhat; however, we believe it is sufficient to illustrate that the values seem relatively aggressive.

Graphisoft Park: illustration of FV split between land and standing assets (incl. parking)

EUR m	2012	2013	2014	2015	2016	2017E
Unadjusted for land						
Fair value of investment property (EUR m)	130	134	157	154	189	252
Area (sqm)	46,000	46,000	52,000	53,000	53,000	61,000
FV per sqm (EUR)	2,824	2,906	3,018	2,898	3,565	4,132
Occupancy	81%	84%	95%	98%	100%	99%
Rental income (EUR m)	8.3	8.1	8.5	9.5	9.5	10.4
Yield on rental income	6.4%	6.1%	5.4%	6.2%	5.0%	4.1%
Monthly rental income (EUR/sqm)	18.5	17.5	14.3	15.2	15.0	14.3
Adjusted for land at EUR 200/sqm						
Estimated size of buildable GLA* (sqm)	81,500	81,500	75,500	74,500	74,500	66,500
Estimated value of land per sqm (EUR)	200	200	200	200	200	200
Estimated value of landbank (EUR m)	16.3	16.3	15.1	14.9	14.9	13.3
Estimated FV of standing assets (EUR m)	114	117	142	139	174	239
FV per sqm (EUR)	2,470	2,551	2,727	2,617	3,283	3,914
Yield on rental income	7.3%	6.9%	6.0%	6.8%	5.5%	4.3%
Adjusted for land at EUR 300/sqm						
Estimated size of buildable GLA* (sqm)	81,500	81,500	75,500	74,500	74,500	66,500
Estimated value of land per sqm (EUR)	300	300	300	300	300	300
Estimated value of landbank (EUR m)	24.5	24.5	22.7	22.4	22.4	20.0
Estimated FV of standing assets (EUR m)	105	109	134	131	167	232
FV per sqm (EUR)	2,293	2,374	2,582	2,477	3,143	3,805
Yield on rental income	7.9%	7.4%	6.3%	7.2%	5.7%	4.5%
Adjusted for land at EUR 400/sqm						
Estimated size of buildable GLA* (sqm)	81,500	81,500	75,500	74,500	74,500	66,500
Estimated value of land per sqm (EUR)	400	400	400	400	400	400
Estimated value of landbank (EUR m)	32.6	32.6	30.2	29.8	29.8	26.6
Estimated FV of standing assets (EUR m)	97	101	127	124	159	225
FV per sqm (EUR)	2,116	2,197	2,437	2,336	3,002	3,696
Yield on rental income	8.5%	8.0%	6.7%	7.7%	6.0%	4.6%

Source: WOOD Research

Transaction comparison: Millennium Towers

We can illustrate our point further by comparison with Millennium Towers, an office complex that CA Immo purchased in Budapest in September 2016 from TriGranit. The office complex spans 70.4k sqm GLA; as such, it is slightly larger than Graphisoft Park (61k sqm). The fully-leased office park was generating EUR 12m annually in rental income at the time of the acquisition; again, similar to the c.EUR 10m and EUR 12m in rental income at Graphisoft Park in 2017E and 2018E, respectively, on our estimates. The average monthly rents are also broadly comparable for both projects, at around EUR 14-15 per sqm.

The Millennium office complex was developed by TriGranit over 2006-11, is more centrally located within the city (on the banks of the Danube, offering a panoramic view of the Buda hills south of the CBD in the 9th district), and tenants include international companies such as Vodafone, Morgan Stanley and Lexmark. At the time of the acquisition, the weighted average unexpired lease term (WAULT) was in excess of four years, and the buildings are LEED certified.

We believe that the sale provided an extremely useful point of reference. While Graphisoft Park may provide a more tranquil work environment, Millennium Towers is located within an established office hub and is more centrally located (Millennium Towers is a c.4km walk from the famous St. Stephen's Basilica, whereas Graphisoft Park is some 8km away). As both assets offer a similar outstanding lease term, blue-chip tenant mix and quality premises, we believe it is possible to use the sale as a point of reference for the valuation of the standing assets at Graphisoft Park.

CA Immo purchased Millennium Towers for EUR 175m last October. This translates into a 6.9% yield on rental income, or EUR 2,500 per sqm.

Based on the analysis above, Graphisoft Park seems to book its buildings at EUR 234m. This translates into c.EUR 3,200 per sqm, and around a 5.6% yield. While the amount per sqm could be somewhat higher at Graphisoft because it has a higher number of parking spaces (2,000 vs. 1,200 at CA Immo's complex), the yield comparison reveals that this does not seem to explain the difference.

Overall, CA Immo's Hungarian office portfolio is booked at a 7.2% yield on gross rental income, while its peer GTC books its Hungarian office portfolio at around 7.0% (both as of the end of 3Q17).

Fair value – our estimate is some 15-20% below management's

We take a very simple approach to estimating FV of Graphisoft's portfolio.

- ✓ We pencil in the cost of land at EUR 250 per sqm of buildable area.
- ✓ We assume that the standing assets will generate rental income of around EUR 13.5m, once all the current developments have been completed (monthly rental income of EUR 15.6 per sqm, which implicitly includes the parking fees).
- ✓ We use a 6.50% yield to value the standing assets.

With this approach, we estimate the fair value of the portfolio at around EUR 220m by the end of 2018E, some 18% below management's estimate of EUR 270m. We do not reduce management's estimate by the outstanding construction costs, because we calculate with the area of the properties that are under construction currently.

The following table illustrates the calculation.

Graphisoft Park: our estimate of FV of portfolio by the YE18E

Cost of land (EUR per buildable sqm)	250
Size of buildable area (ths sqm)	54
Value of land (EUR m)	**13.5**
Size of standing portfolio	73,500
Rents per sqm	15.60
Occupancy	98%
Annualised rental income (EUR m)	13.5
Yield	6.50%
Value of standing assets	**207**
Total FV of standing assets and landbank as of YE18E	**220**
Management's estimated FV of investment assets as of 3Q17*	**270**
Difference	-18.4%

Source: WOOD Research

FV: sensitivity on key input parameters, yield and value of land per sqm

Fair value of land sensitivity to price per sqm of land and yield on standing assets

Yield	Price of land (EUR per sqm of buildable area)								
	150	**175**	**200**	**225**	**250**	**275**	**300**	**325**	**350**
5.50%	253	254	255	257	258	259	261	262	263
5.75%	242	243	245	246	247	249	250	252	253
6.00%	232	234	235	236	238	239	240	242	243
6.25%	223	225	226	227	229	230	231	233	234
6.50%	215	216	218	219	220	222	223	225	226
6.75%	207	209	210	211	213	214	215	217	218
7.00%	200	202	203	204	206	207	208	210	211
7.25%	194	195	196	198	199	200	202	203	204
7.50%	187	189	190	192	193	194	196	197	198

Difference vs management estimate of FV

Yield	Price of land (EUR per sqm of buildable area)								
	150	**175**	**200**	**225**	**250**	**275**	**300**	**325**	**350**
5.50%	-6%	-6%	-5%	-5%	-4%	-4%	-3%	-3%	-2%
5.75%	-10%	-10%	-9%	-9%	-8%	-8%	-7%	-7%	-6%
6.00%	-14%	-14%	-13%	-13%	-12%	-12%	-11%	-11%	-10%
6.25%	-17%	-17%	-16%	-16%	-15%	-15%	-14%	-14%	-13%
6.50%	-20%	-20%	-19%	-19%	-18%	-18%	-17%	-17%	-16%
6.75%	-23%	-23%	-22%	-22%	-21%	-21%	-20%	-20%	-19%
7.00%	-26%	-25%	-25%	-24%	-24%	-23%	-23%	-22%	-22%
7.25%	-28%	-28%	-27%	-27%	-26%	-26%	-25%	-25%	-24%
7.50%	-31%	-30%	-30%	-29%	-29%	-28%	-28%	-27%	-27%

Source: WOOD Research

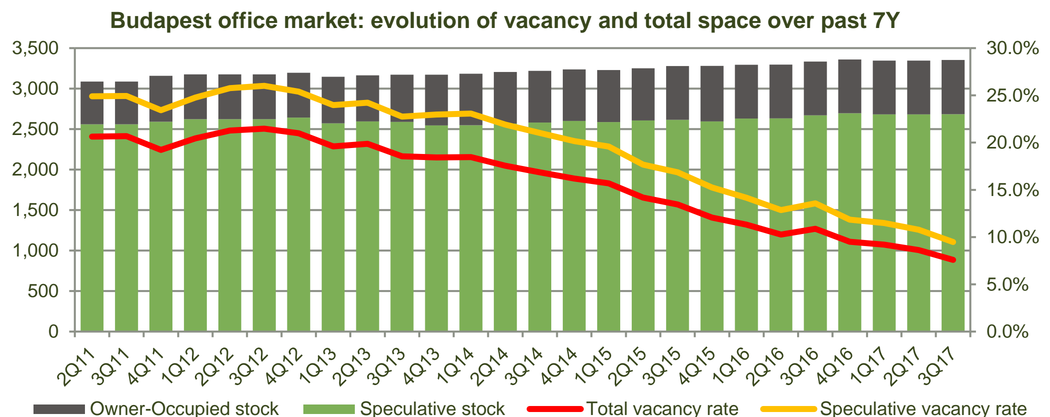
Budapest office market overview

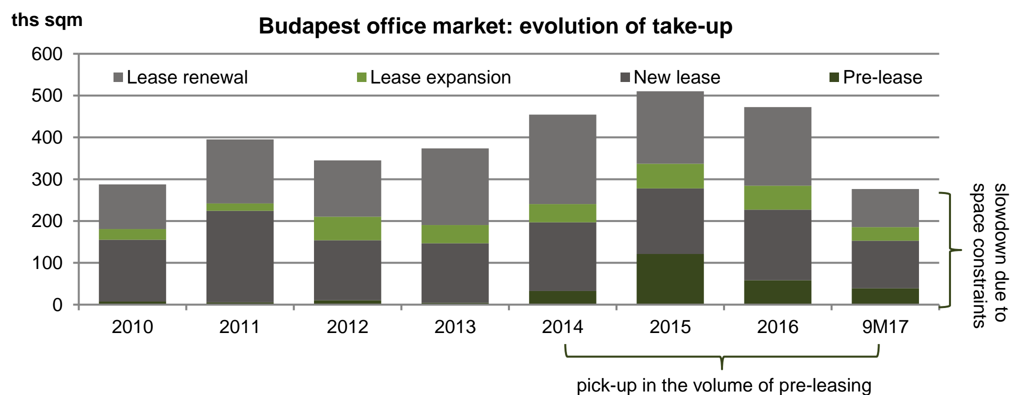
Spike in vacancy in the aftermath of the crisis led to a complete halt of development

The total modern office stock in Budapest amounts to c.3.35m sqm, according to the Budapest Research Forum (BRF)[2]. The vacancy spiked in the aftermath of the crisis. If we account just for the speculative stock (excluding the owner-occupied buildings from the calculation), vacancy stood in excess of 25% during 2012. Combined with the weak economic climate at the time (the economy was contracting in 2012 and recorded anaemic growth of 0.5% in 2013), the development activity came to a halt, and, over the almost six years since the start of 2012, a mere 280k of new space has been completed on the market.

- ✓ **To put this into perspective, we consider Warsaw, a city of almost the same size.** For both Warsaw and Budapest, the populations of the cities are estimated at around 1.7-1.8m, whereas the population of the whole surrounding urban area is estimated at around 3.1m and 3.3m residents, in Warsaw and Budapest, respectively. Whereas, in Budapest, completions over the past six years have totalled 280,000 sqm; in Warsaw, completions have reached around 300,000 sqm over the same period, annually.
- ✓ **A look at neighbouring Vienna also reveals a telling contrast.** The number of residents within the city is estimated at around 1.8-1.9m, whereas the broader metropolitan area around Vienna is home to c.2.6m people. Its metropolitan area is thus some 20% smaller than Budapest's. At the same time, however, Cushman & Wakefield estimates the total modern office stock at around 10.9m sqm in Vienna. This would translate into around 4.2 sqm of modern office space per capita, within the metropolitan area. In Budapest, the density is as low as 1.0 sqm per capita, using the same calculation.

With limited construction activity, vacancy has dropped to record-low levels





Source: WOOD Research

Clearly, being a developed, mature market, scoring extremely well on the global benchmarks on quality of living, it would be far-fetched to expect that Budapest would close the gap in the office space density any time soon. However, we believe that this well-illustrates the sheer magnitude of the potential for future development.

[2] The Budapest Research Forum currently comprises CBRE, Colliers Invernational, Cushman and Wakefield, Eston International, JLL and Roberston Hungary. Historically, members also included DTZ and King Sturge.

Another important factor to be considered in this regard is the age structure of the existing office stock. Based on the available data, we believe there has been around 280,000 sqm of new office space delivered during the past five years; that is, over 4Q12-3Q17. Based on older reports on the office market, we estimate that, between 2008 and 2012, around 700-750k sqm of new office space was delivered, with 2009 in particular seeing numerous completions.

This means that just around 8% of the existing stock is younger than five years, around 8% was completed five-to-eight years ago, and around 15% was completed 8-10 years ago. This means that over 70% of the office stock is more than 10 years old.

In our view, this means that a large number of the current A-grade office stock may require some investment in refurbishment and, potentially, remodelling, to continue to meet the current standards. Also, without capex, parts of the existing B-grade space may be declassified gradually and excluded from the institutional office market altogether.

We believe that, especially once the pace of new completions accelerates (that is, from next year onwards), there may be increasing disparity between the performance of the prime, A-grade office stock with good concept, positioning and generally high quality, and the older, B-class properties. We believe that the latter may be forced to spend some capex on a facelift (e.g., the refurbishment of lobbies, etc.) in order to remain competitive. Even then, unless the owner does a thorough reconstruction and completely repositions the building on the market (which may be considered only for the properties in good, established office locations, in our view), the older buildings will be competing mostly on pricing, in our view, leading to pressure on the rents in this segment of the market.

Vacancy at a record low, as existing premises cannot accommodate the leasing demand

Over the past three-to-four years, economic growth has picked up, as has leasing activity. As visible in the chart above, combined with the lack of new developments, this had a dramatic effect on the vacancy, which has compressed to a record-low level. As of the end of 3Q17, the vacancy stood at a mere 7.6%, as the available space declined from 682,000 sqm in 3Q12 to 255,000 sqm in 3Q17, or by 63% over the past five years.

From the perspective of the developed office markets, this level of market vacancy may not appear particularly low. However, as the total size of the market is substantially smaller than is usually the case in the large cities in Western Europe, even at the current 7-8%, the vacancy represents a substantial bottleneck for leasing activity. All the market participants we have interviewed agreed that it is currently almost impossible to close larger leases (say, 1,500-2,000 sqm and above) within existing premises, as the available space is usually small, and located across various buildings.

Decline in vacancy has led to a pick-up in effective rent levels

Budapest is currently a landlords' market. Headline rents are on the rise, and the large concessions and incentives that were offered to tenants at the height of the crisis have been scaled back substantially.

According to CBRE, the average monthly headline asking rent for A-grade schemes is around EUR 14/sqm. Five years ago, around 2011-12, when the vacancy was peaking, the average headline rents for A-grade office space stood at around EUR 11-13/sqm, according to the historic CBRE reports from that time, down from around EUR 14-15/sqm at the peak of the market, in 2007-08.

While the increase may not seem overly dramatic, it is important to consider it together with the gap between effective and headline, which has been narrowing over recent years. While, when the market was depressed, rent-free periods were often at around two, or even up to three, months per year of contract; currently, they are at around one month, on average. The average length of contracts has also increased – while three-year contracts have been common; currently, most of the contracts are now five-year, and a break option at three years is a rarity in the current market.

With respect to the rent level for the market overall, including B-class properties, the average monthly rent levels stand at around EUR 11/sqm, according to CBRE.

Volume of office completion should pick up substantially in the following years

According to CBRE, the planned pipeline scheduled to come onto the market by the end of 2019E is over 550,000 sqm GLA. This would imply that the modern office space in the city will expand by over 15% over the period. The actual volume may be lower, as the rising construction costs may delay the completion of some of these projects. However, with over 300,000 sqm scheduled for completion in 2018E alone, we believe we are bound to see an increase in the market vacancy. Our conversations with realtors suggest that around half of the supply is already pre-leased.

Given the strong demand for space, fuelled by the advantageous corporate tax environment, we do not believe that new, well-conceptualised projects should struggle to attract tenants. However, we believe that the wave of supply is likely to increase the pressure on the owners of the older, B- and C-class

premises. Increasingly, these will be competing mostly on price, putting effective rents in the segment under pressure, in our view.

We do not expect this to have a direct negative effect on the rents at Graphisoft Park – even though about half of the assets were built over 10 years ago, the buildings are in good shape, and have managed to command above-average rents throughout their history, thanks to their concept and location. That said, we believe that the new supply is likely to shift the negotiating power from landlords somewhat, potentially limiting the room for further rent increases.

Yields and the real estate investment market

CBRE estimates that the CRE turnover in 2017 should reach the outstanding 2016 levels of around EUR 1.6bn. According to CBRE, investment volumes reached EUR 795m in the 1H17, similar to the corresponding period last year.

Despite the pick-up, the investment volumes are still well below those recorded in the Czech Republic (between EUR 3-4bn) and Poland (around EUR 4bn) during the past two years. Also, the yields remain substantially higher. Most of the realtors point to 6.0% as a prime office yield. This is well above the 5.20% and 4.85% quoted as the prime office yields in Warsaw and Prague, respectively.

While there have been several trophy assets traded at sub-6% recently in Budapest (e.g., the Eiffel Palace), our impression is that the steep spike in vacancy is still a fresh memory, and investors are very price conscious. A number of the realtors we have met with confirmed our notion, that a 10-year old office, with a good location, in a good condition, fully leased to blue-chip tenants, with a three-to-four year outstanding WAULT would most likely sell at around a 6.75-7.50% yield.

We believe that, if the financing remains competitive, the prime yields may compress below 6.0% in the coming months. That said, also in light of the sale of the Millennium office complex at a 6.9% yield last year, we would need to see compelling evidence of a tangible compression before we would see it as appropriate to value Graphisoft's Park standing assets with a yield lower than 6.50%, which we use currently.

Commercial Real Estate (CRE)* turnover in Hungary, EUR m

*Source: BRF, CBRE Research; *Commercial Real Estate stands for any kind of income-producing property, excluding land and residential for lease*

Hungary – macroeconomic outlook

Strong growth and low interest rates

We expect real GDP growth at around 4.1% in 2018E, slowing to 3.2% in 2019E, driven broadly by brisk internal demand and a favourable global backdrop. It is our perception that this year's corporate tax rate reduction to 9% is triggering FDI and, as there is strong political capital invested in keeping the economy on a fast growth trajectory, the government is likely to maintain the strong stimulus at least for the foreseeable future. The labour market is very tight, wage growth has hit double-digits and the inflation rate is converging gradually to the MNB's 3% target. In our view, inflationary pressures are building, with the recent acceleration of expected pricing power as an important indicator.

The MNB maintains its dovish tone; although, actually, there is a limited discrepancy between our and its forecast. Our assessment differs mildly on the strength of the wage growth outlook and how quickly inflation will reach 3%: we see wage growth at or above 10% this year and the next, which would support the inflation rate returning to the 3% target in the second half of 2018E. The MNB instead sees wage growth moderating gradually and the inflation rate hitting its target around mid-2019E. Aside from this, our assessment of the economic outlook is similar.

We see the overnight deposit rate being held at -0.15% in 2018E, with the policy rate possibly rising by 30bps towards the end of 2018E. As, in our view, the recovery is broad and robust, and inflation is picking up, monetary policy should be tightened mildly in order to remain prudent and in line with the spirit of the MNB's inflation and financial stability mandates. However, it appears that the MNB is less confident than we are about the rosy outlook, and its dovish bias will affect the currency and borrowing costs developments in the coming year.

Compressing the yield curve and its consequences

The MNB's guidelines argue in favour of the further compression of the yield curve, especially at the long end of the curve. We have been flagging that the 10-year yield could move to 1% in the coming year and, indeed, it does seem to be heading that way. The high liquidity in the banking sector, coupled with the strong wage dynamics, which are boosting households' savings, are the two key ingredients that allow the central bank to compress local bond yields further.

We see three important consequences if the monetary framework unfolds as we now suspect: 1) the liquidity in the local bond market will fall significantly further; 2) the local banks will continue to increase bond ownership; and 3) yields will compress – as long as the overall backdrop is favourable. The low liquidity would prove to be a problem once inflation exceeds the MNB's target, or if the local banks try to diversify their balance sheets. The lower the bond yields fall, the more appealing it would be to lend to the private sector – as long as the global backdrop is favourable, this mix would be positive for lending dynamics and domestic demand growth (including house prices).

While we see house price growth continuing, we expect it to slow slightly in 2018 to around 11% yoy on average (latest figures for 2Q17 show yoy growth falling from the 11.9% recorded in 1Q17 to 7.7%). House purchase lending rates for households is on a downward trend (around 4.3% in September, down roughly 60bps on the same period the year before. Following the MNB's introduction of a interest rate swap facility and announcement that it will purchase mortgage bonds with maturities of three-years or more, we expect a further compression of the lending rate of up to 100bps in 2018E.

Alas, there is no such thing as a free lunch – sooner or later, the MNB will have to come around to the idea of a modest tightening of monetary policy, in our view. The departure of the UK from the EU in the spring of 2019 is an important source of risk, and we may see the MNB delaying the normalisation of the monetary policy rate to the summer of 2019E.

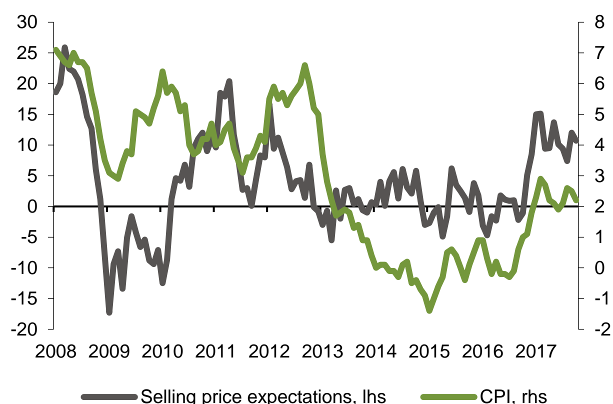
Mild appreciation for the HUF

We see the HUF trading at 303 against the EUR on average in 2018E and at 295 in 2019E. We remain very sceptical about a steady depreciation path from the current levels, as the balance of payments is very strong, inflationary pressures are growing and the influence the central bank has on the local bond market remains steady. Unless the overall policy framework (that is, fiscal and foreign policy) deteriorates significantly, we believe that the central bank can only intervene verbally on a regular basis.

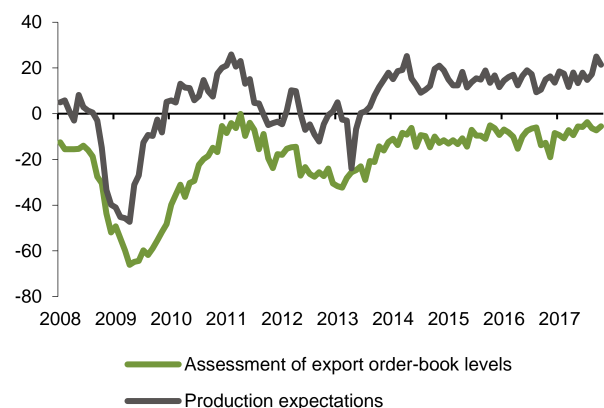
Very strong balance of payments position

The current account continues to perform well, posting a surplus of 4.9% of GDP on a 4Q rolling basis at the end of 1H17. Furthermore, exports were 83.5% of GDP on a 12M rolling basis at the end of the same period (very similar to what it was a year ago). On the funding side, net FDI inflows have increased from 1.3% of GDP at the end of 2Q16, to 3.4% on a 12M rolling basis. Portfolio investment, meanwhile, is still recording a net outflow, but is down: only 4.0% of GDP on the same basis, compared to 5.7% last year. Other investment is also still showing a net outflow, but down from 10.8% to 4.3%.

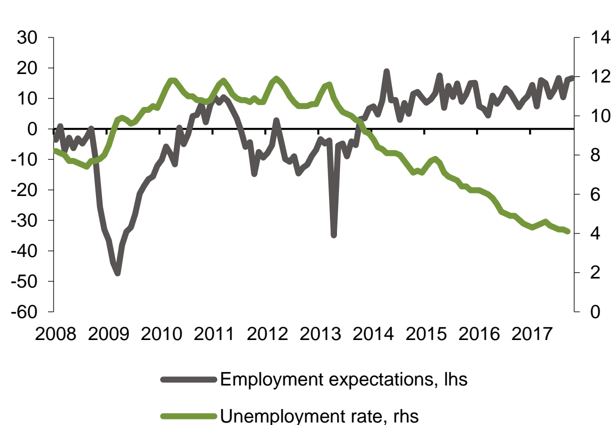
Expected pricing power has risen vs. 2012/16



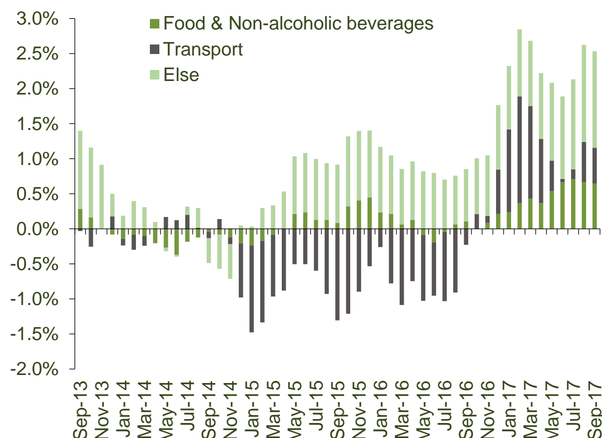
Production expectations are volatile, but high



Real GDP growth



Inflation is converging to the 3% target



Source: Eurostat, ADA Economics in association with WOOD Research

Key macro projections

	2013	2014	2015	2016	2017E	2018E	2019E
Real GDP growth	2.1%	4.2%	3.4%	2.2%	3.7%	4.1%	3.2%
Households	0.2%	2.8%	3.6%	4.3%	4.5%	5.2%	4.5%
Government	4.1%	5.1%	1.1%	0.8%	0.5%	2.0%	2.0%
Investment	9.8%	12.3%	1.9%	-10.6%	5.3%	8.4%	2.2%
Exports	4.2%	9.1%	8.5%	3.4%	6.0%	10.0%	6.7%
Imports	4.5%	11.0%	6.4%	2.9%	9.5%	11.0%	9.1%
Population, m	9.9	9.9	9.9	9.8	9.8	9.8	9.9
Unemployment rate	10.3	7.8	6.9	5.2	4.3	3.3	2.3
Inflation, avg	1.7%	-0.2%	-0.1%	0.4%	2.7%	2.9%	3.5%
Policy rate, MNB eop	3.00	2.10	1.35	0.90	0.90	0.90	0.90
Current account in % of GDP	3.8%	1.5%	3.5%	6.1%	4.0%	3.5%	3.0%
EUR/HUF, eop	297	316	316	310	308	303	295
Fiscal balance in % of GDP	-2.6%	-2.7%	-2.0%	-1.9%	-1.9%	-2.4%	-2.4%
Public debt in % of GDP	76.0%	75.2%	74.7%	73.9%	73.0	72.0%	71.0%

Source: ADA Economics in association with WOOD Research

Financials

Portfolio overview

	2012	2013	2014	2015	2016	2017E	2018E	2019E
Year-end, m2 ('000)	46,000	46,000	52,000	53,000	53,000	61,000	73,500	73,500
Rented space, m2	37,260	38,640	49,400	51,940	53,000	60,390	70,390	71,860
Occupancy	81%	84%	95%	98%	100%	99%	96%	98%
Gross Rental Income (EUR m)	8.3	8.1	8.5	9.5	9.5	10.4	12.4	13.5
Value of entire portfolio (EUR m)	129.9	133.7	156.9	153.6	188.9	252.1	220.5	220.5
Landbank (sqm of potential GLA)	61,000	61,000	55,000	54,000	54,000	54,000	54,000	54,000
Estimated value of land (EUR/sqm)	250	250	250	250	250	250	250	250
Estimated value of land (EUR m)	15.3	15.3	13.8	13.5	13.5	13.5	13.5	13.5
Estimated value of standing assets (EUR m)	114.7	118.4	143.2	140.1	175.4	238.6	207	207
- price / m2, EUR	2,824	2,906	3,018	2,898	3,565	4,132	2,999	2,999
- GRI per m2, EUR	18.5	17.5	14.3	15.2	15.0	14.3	15.6	15.6
- yield	7.2%	6.9%	5.9%	6.8%	5.4%	4.4%	6.0%	6.5%

Source: Company data, WOOD Research

Income statement

EUR m	2012	2013	2014	2015	2016	2017E	2018E	2019E
Rental income	**8.3**	**8.1**	**8.5**	**9.5**	**9.5**	**10.4**	**12.4**	**13.5**
-yoy	*n/a*	*0.0*	*0.0*	*0.1*	*0.0*	*0.1*	*0.2*	*0.1*
Service charge income	3.04	3.02	2.93	3.51	3.58	3.82	4.7	5.1
Service charge expense	-2.90	-2.92	-2.76	-3.23	-3.26	-3.47	-4.2	-4.6
Other direct property related expenses	-0.07	-0.10	-0.06	-0.05	-0.05	-0.06	-0.1	-0.1
Net rental income	**8.4**	**8.1**	**8.6**	**9.7**	**9.8**	**10.7**	**12.7**	**13.8**
-yoy	*n/a*	*0.0*	*0.1*	*0.1*	*0.0*	*0.1*	*0.2*	*0.1*
-margin	*101%*	*100%*	*101%*	*102%*	*103%*	*103%*	*103%*	*103%*
Gains from sale of investment property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating expenses	-0.7	-0.8	-0.9	-0.9	-1.1	-1.5	-1.6	-1.7
Other income and expenses	-0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.0
EBITDA (excl. revals)	**7.5**	**7.3**	**7.7**	**8.9**	**8.7**	**9.3**	**11.2**	**12.2**
-yoy	*n/a*	*0.0*	*0.1*	*0.1*	*0.0*	*0.1*	*0.2*	*0.1*
-margin	*0.9*	*0.9*	*0.9*	*0.9*	*0.9*	*0.9*	*0.9*	*0.9*
Gain/(loss) from FV adjustments on investment properties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	-3.7	-3.7	-4.1	-4.2	-4.2	-4.6	-6.1	-6.4
Operating profit/(loss)	**3.7**	**3.6**	**3.7**	**4.7**	**4.6**	**4.7**	**5.1**	**5.7**
Interest income	0.5	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Interest expense	-2.1	-1.5	-1.3	-1.3	-0.8	-0.8	-1.4	-1.5
FX differences - realised	0.0	-0.1	0.0	0.1	0.0	0.0	0.0	0.0
FX differences - not realised	0.0	0.0	-0.2	0.1	0.0	-0.1		
PBT	**2.2**	**2.3**	**2.2**	**3.6**	**3.7**	**3.8**	**3.6**	**4.2**
Current income tax	-0.2	-0.3	-0.2	-0.3	-0.4	-0.2		
Deferred income tax	-0.1	-0.3	0.1	-0.2	-0.2	0.6		
Net profit to shareholders	**1.8**	**1.8**	**2.0**	**3.0**	**3.2**	**4.2**	**3.6**	**4.2**
Net rental income margin	101%	100%	101%	102%	103%	103%	103%	103%
EBITDA margin	90%	90%	91%	93%	92%	89%	90%	90%
EBIT margin	45%	44%	43%	49%	48%	46%	41%	43%
Net profit margin	22%	22%	24%	32%	33%	40%	29%	32%
Rental income to FV of investment portfolio	6.4%	6.1%	5.4%	6.2%	5.0%	4.1%	5.6%	6.1%

Source: Company data, WOOD Research

FFO reconciliation

EUR m	2012	2013	2014	2015	2016	2017E	2018E	2019E
Net rental income	8.35	8.13	8.59	9.72	9.79	10.67	12.73	13.83
Operating expenses	-0.75	-0.84	-0.87	-0.86	-1.08	-1.53	-1.55	-1.65
Other income / expense	-0.15	0.01	0.03	0.00	0.04	0.14	0.00	0.00
Net interest expense	-1.59	-1.14	-1.29	-1.31	-0.83	-0.80	-1.40	-1.49
Realised FX differences	0.04	-0.06	0.02	0.12	-0.01	0.01	0.00	0.00
FFO I - pre-tax	**5.90**	**6.10**	**6.48**	**7.66**	**7.90**	**8.49**	**9.78**	**10.68**
Current income tax	-0.22	-0.25	-0.25	-0.33	-0.36	-0.21	0.00	0.00
FFO I	**5.68**	**5.85**	**6.23**	**7.34**	**7.55**	**8.28**	**9.78**	**10.68**
# of shares ex.treasury and employee shares (avg)	10.15	10.14	10.10	10.08	10.08	10.08	10.08	10.08
FFO I / sh	**0.56**	**0.58**	**0.62**	**0.73**	**0.75**	**0.82**	**0.97**	**1.06**
Dividend payout as a % of FFO	**21%**	**24%**	**51%**	**32%**	**31%**	**50%**	**40%**	**39%**
Dividend	1.17	1.39	2.99	2.00	2.31	3.77	3.28	3.82
FFO I RONAV	6.4%	6.4%	5.9%	6.3%	5.8%	4.9%	5.9%	7.6%

Source: Company data, WOOD Research

Balance sheet

EUR m	2012	2013	2014	2015	2016	2017E	2018E	2019E
Cash and cash equivalents	6.2	10.2	4.8	4.8	2.6	8.9	6.1	9.6
Trade receivables	0.4	0.5	0.3	0.2	1.1	0.5	0.6	0.7
Current tax receivable	0.1	0.1	0.1	0.1	0.3	0.4	0.4	0.4
Other current assets	2.6	0.2	0.2	0.1	5.7	12.5	0.0	0.0
Current assets	**9.3**	**10.9**	**5.4**	**5.2**	**9.7**	**22.3**	**7.1**	**10.6**
Investment property	62.3	61.2	63.2	60.3	69.7	81.7	220.5	220.5
Other tangible assets	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.3
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current assets	**62.6**	**61.5**	**63.6**	**60.6**	**70.0**	**82.0**	**220.8**	**220.8**
Total assets	**71.9**	**72.4**	**68.9**	**65.9**	**79.7**	**104.3**	**227.8**	**231.4**
Short-term loans	2.7	2.8	2.9	3.2	3.5	4.0	4.0	4.0
Trade payables	0.4	0.7	0.5	1.0	4.2	4.8	4.8	5.1
Current tax liability	0.1	0.2	0.2	0.1	0.3	0.4	0.4	0.4
Other short-term liabilities	0.9	1.1	1.4	1.6	1.7	2.7	2.7	2.7
Current liabilities	**4.1**	**4.8**	**5.0**	**5.9**	**9.6**	**11.9**	**11.9**	**12.3**
Long-term loans	47.1	44.3	41.4	36.7	44.3	63.4	73.4	73.4
Deferred tax liability	0.0	0.3	0.2	0.4	0.6	0.0	0.0	0.0
Long-term financial liability	0.0	0.0	0.0	0.0	1.6	3.8	4.2	4.2
Non-current liabilities	**47.2**	**44.6**	**41.6**	**37.1**	**46.5**	**67.2**	**77.6**	**77.6**
Share capital	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Retained earnings	23.9	26.6	26.0	26.4	27.2	28.9	28.7	29.7
Valuation reserve	0.1	0.0	0.0	0.0	0.0	0.0	113.2	115.5
Treasury shares	-0.7	-0.8	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Accumulated translation difference	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
Shareholders' equity	**20.6**	**23.1**	**22.3**	**22.8**	**23.5**	**25.2**	**138.3**	**141.6**
NAV	88.3	95.3	116.2	116.5	143.1	195.6	138.3	141.6
NAVPS (EUR)	8.7	9.4	11.5	11.6	14.2	19.4	13.72	14.0
Total debt	49.9	47.1	44.3	40.0	47.8	67.4	77.4	77.4
Net debt	43.7	37.0	39.5	35.2	45.2	58.5	71.3	67.8
Net LTV	0.34x	0.28x	0.25x	0.23x	0.24x	0.23x	0.32x	0.31x
Net debt to EBITDA	5.9x	5.5x	4.9x	4.2x	4.6x	5.6x	5.8x	5.7x

Source: Company data, WOOD Research

Statement of cash flows

EUR m	2012	2013	2014	2015	2016	2017E	2018E	2019E
Operating CF	7.08	9.80	8.19	8.69	2.73	5.54	11.14	12.45
Capex	-2.03	-2.35	-6.38	-1.21	-11.46	-20.64	-19.14	-4.14
Proceeds from disposals and investments	2.73	2.26	0.05	0.07	0.00	0.20	-0.03	-0.02
Dividend	-1.17	-1.39	-2.99	-2.00	-2.31	-2.51	-3.77	-3.28
Other CF from financing activities	-4.2	-4.3	-4.4	-5.7	8.9	24.0	8.6	-1.5
Change in cash	**2.41**	**4.02**	**-5.51**	**-0.13**	**-2.17**	**6.61**	**-3.18**	**3.53**

Source: Company data, WOOD Research

Annex 1

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Rating		Price target	
14/12/2017	HOLD – initiation of coverage	14/12/2017	HUF 3,734

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CEZ	5
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Conpet	1
Cyfrowy Polsat	5
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Getin Noble Bank	5
GTC	5
Handlowy	5
ING BSK	5
ITG	1, 3
Immofinanz	5
IPF	5
JSW	5
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KGHM	5
Komercni	5
Kruk	5
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PKP Cargo	5
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