

Appeninn

Recommendation: Under revision (Prev: Accumulate)

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

A new shareholder again, and FY results + buyback!

Appeninn announced that there was a change again in its shareholder structure, a **new strategic investor** purchased (**Zinventive**) the stake of Konzum's Property Investment Fund (18%), thus with this transaction Konzum effectively exited the company. The owners of Zinventive has a professional background in complex construction and real estate services in Hungary. After the change in shareholders structure, the two major stakeholders - BDPST + Zinventive – have 48% stake in Appeninn (*please see our shareholder structure chart in the appendix*).

Also AGM accepted the proposal of a **share buyback program** in an extent of 5% of the outstanding shares (992,829) for the next 18 months. The program is phrased interestingly as it mentions that Appeninn could acquire the shares for free¹ (?) as well. We will reach out to Appeninn's management for clarification of the latter but in general, we think it is a positive step towards creating value for shareholders as the share price is deeply below the net asset value per share (HUF 540 per share – P/NAVPS of 0,5x). Calculating with current share price (HUF 270) it implies a HUF 268 million (EUR 0. 766 million) cash outflow (vs. EUR 2 million FFO in 2019). We believe that it could provide a support for share price as the buyback and the cancellation of share will automatically increase EPS by more than 5% cet. par.

As for the **financial results of 2019**. Profit arrived to EUR 12 million a decrease of 30% compared to last year's profit as revaluation gain in 2019 was 60% lower than in 2018 (EUR 8million vs. EUR 18.7m in 2018) – means and EPS of EUR 0.26 - HUF 90 (calculating with an FX rate of 350 per share). Excluding the effect of asset revaluations **clean EBITDA** came to EUR 4.6 million +105% y-o-y as a result of FY income effect of acquired assets in late 2018. Gross Rental Income climbed by 30% y-o-y to EUR 7.5 million from EUR 5.7 million while Net Rental Income increased even more by 52% to EUR 6.3 million from EUR 4.2 million as the new assets have higher margin compared to legacy portfolio and there was a non-recurring one in an extent of EUR 0.6 million. Margin – wise it means that **NRI margin** (NRI / GRI) improved to 86% from 76%.

On the asset side, **NAVPS** increased by 18% in EUR terms to 1.54 EUR / share or to 540 HUF / share (EUR / HUF @ 350) on the back of revaluation gains and undistributed profit. Gross asset value increased by EUR 30 million mainly fueled by acquisition of PRO MOT kft. (Properties in Balatonvilágos ca. EUR 27 milion) to EUR 148 million. Appeninn slightly increased its leverage as net LTV went up to 53% from 49%. During 2019 the company issued a bond of EUR 60

¹ https://appeninnholding.com/app/uploads/2020/04/Appeninn_Nyrt_KGY200417.pdf

million partly to refinance existing liabilities, and finance future expansion. As of 31.12.2019 the company has EUR 40 million in cash.

Funds From Operation (FFO) also increase in line with clean EBITDA dynamic. Management did not propose dividend from last year’s profit. However theoretically, the company could pay ca. 10 - 12 HUF per share on a sustainable way, based on the cash flow generation capacity of the asset in 2019, in our view. Also, it would be interesting to see how the company would like to invest the EUR 40 million the company currently has on its Balance sheet.

COVID-19 effect: The measures taken in relation to the pandemic have a significant but not critical impact on the operation of Appeninn. “Approximately 5 to 15 per cent of the current tenants are engaged in business lines that must be shup down due to the government decree, and thus they expect temporary misses of revenues. Some of these tenants have requested Appeninn Holding to reduce the rent on a temporary basis. The four most significant tenants are not or only slightly affected by revenue losses caused by the COVID-19 virus.”

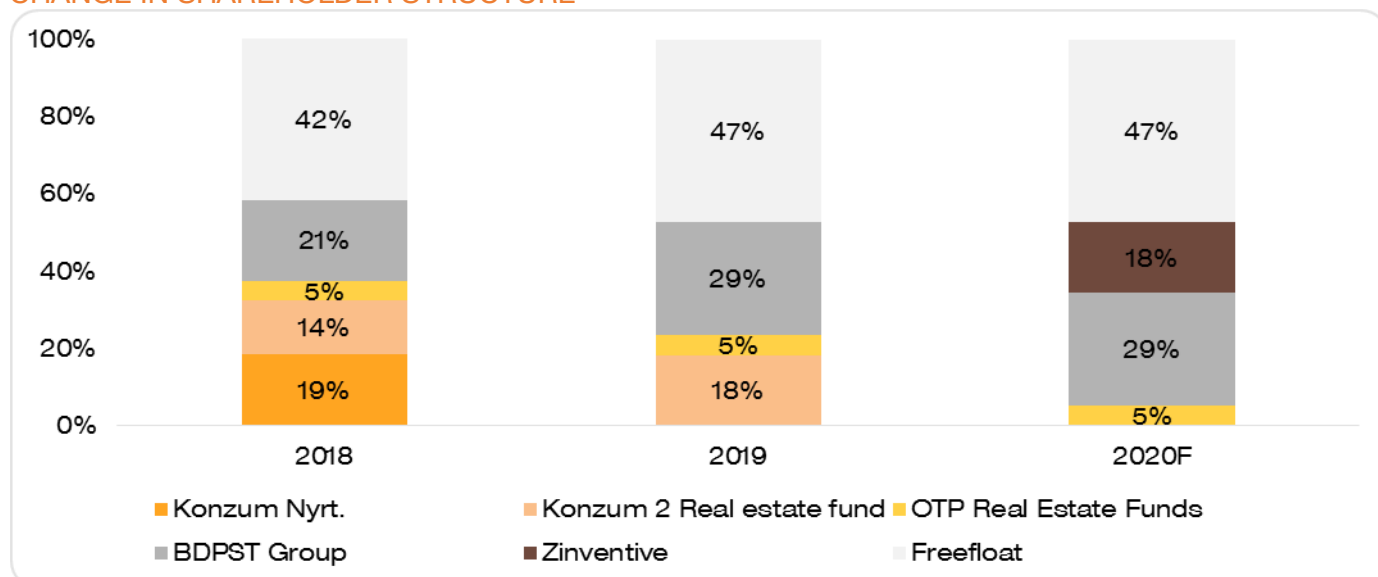
Opinion

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

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

Appendix

CHANGE IN SHAREHOLDER STRUCTURE



Source: Appeninn, Concorde

SIMPLIFIED P&L

EUR ths	2019	2018	2017	y-o-y
Gross rental Income (GRI)	7,402	5,776	4,933	28%
EBITDA	13,796	19,022	4,407	-27%
clean EBITDA*	4,584	2,498	2,906	84%
EBIT	13,724	21,712	4,403	-37%
Net financials	- 2,021	- 2,207	- 1,114	-8%
EBT	11,703	19,505	3,290	-40%
Profit	12,115	17,379	2,549	-30%
EBITDA margin	62%	43%	59%	43%
FFO1	2,049	682	1,728	200%
* excluding revaluations				
net debt [EUR m]	78	58	28	34%
debt [EUR m]	114	61	37	87%
GAV [EUR m]	148	118	63	25%
NAV [EUR m]	74	62	32	18%
LTV	53%	49%	45%	
FFOPS1 [EUR]	0.04	0.01	0.04	
FFOPS1 [HUF]	15.1	4.8	13.1	
FFO yield	4.3%	1.1%	2.2%	
P/NAVPS	0.6	1.0	2.5	

Source: Appeninn, Concorde

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