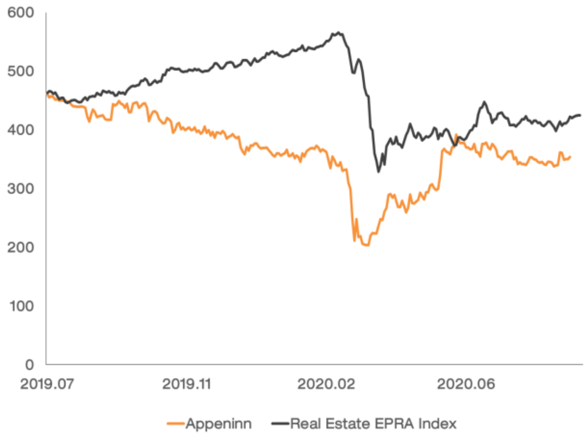
CONCORDE RESEARCH

CEE Equity Research | Hungary | Real Estate
24 September 2020

Appeninn

Recommendation: Under revision
Target price 12M: Under revision

EUR ths	2020 H1	2019 H1	Ch (%)
Gross rental Income (GRI)	4,268	4,660	-8%
Clean EBITDA	1,871	2,289	-18%
EBIT	11,377	4,034	182%
Profit	6,435	10,514	-39%
FFO1	185	1,236	-85%
EBITDA margin [%]	44%	49%	
Debt	109	81	34%
EPS [HUF]	49	71	-31%



Share price close as of 24/09/2020	HUF 329	Bloomberg	APPENINN HB
Number of shares [million]	47,4	Reuters	
Market capitalization [HUF bn/EUR mn]	16 / 42	Free float	42%
Daily turnover 12M [EUR th]	104	52 week range	HUF 320-591

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Only revaluation saved the bottomline

- **Financial performance:** Althought headline numbers look relatively good with **profit** arriving at EUR6.4 million (-39% y-o-y)in H1, excluding the non-cash revaluations items (EUR 9.5m), the bottom line should have been in the red.

- **GRI** decreased by ca 8% y-o-y due COVID related issues and due to some to rent which denominated in HUF but booked in EUR, which is relatively large drop given that Appeninn added to assets (Montevideo and Pauler Office during this period ca.+5% GLA). Clean EBITDA fall more ca. 18% y-o-y. FFO1 (EBITDA – interest paid and tax paid) which is a good proxy for cash flow available for shareholder renumeration or to invest, decreased significantly from EUR 1.2 million in 2019H1 to 0.2 million in 2020H1, reflecting the top line pressure in our view, and higher fixed costs. Unfortunately, fixed cost increased (+30% y-o-y) at a time when top line decreased, resulting in lower margins (2020H1 EBITDA margin: 44% vs. 2019FY: 62%). As for the former administrative expenses grew by 19% y-o-y, while personal cost increased by 45% y-o-y.

- **NAV (Net Asset Value)** grew by ca. EUR 5 million to EUR 75 million on a yearly comparison. In H1, Appeninn added 6,793 sqm GLA to the portfolio (Montevideo and Pauler office) representing a 5% increase in total GLA to 89,600 sqm on our calculation vs end year data. Additionally, Appeninn purchased equity stakes in hotel developments in various location in Hungary. Although the price tag of these investments are unkown, we saw EUR 6.7 million cash outflow in the investing section of the cash flow report.

SIMPLIFIED P&L

EUR ths	2020H1	2019	2019H1	2018	2017	y-o-y
Gross rental Income (GRI)	4,268	7,402	4,660	5,776	4,933	-8%
EBITDA	11,392	13,796	4,059	19,022	4,407	181%
clean EBITDA*	**1,871**	**4,584**	**2,289**	**2,498**	**2,906**	**-18%**
EBIT	11,377	13,724	4,034	21,712	4,403	182%
Net financials	- 3,901	- 2,021	6,807	- 2,207	- 1,114	-157%
EBT	7,646	11,703	10,837	19,505	3,290	-29%
Profit	6,435	12,115	10,514	17,379	2,549	-39%
EBITDA margin	44%	62%	49%	43%	59%	-11%
FFO1	185	2,049	1,236	682	1,728	
* excluding revaluations						
net debt [EUR m]	90	78	78	58	28	16%
debt [EUR m]	109	114	81	61	37	35%
GAV [EUR m]	162	148	148	118	63	9%
NAV [EUR m]	75	73	70	62	32	6%
LTV	56%	53%	52%	49%	45%	
FFOPS1 [EUR]	0.00	0.04	0.03	0.01	0.04	
FFOPS1 [HUF]	1.4	14.7	8.5	4.8	13.1	
FFO yield	0.4%	4.2%	2.4%	1.1%	2.2%	
P/NAVPS	0.57	0.66	0.69	1.0	2.5	

Source: Appeninn H1 report, Concorde

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

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

- **Valuation - wise:** Appeninn is trading significantly below its NAVPS ca 44% discount (570 HUF per share, with FX rate of 365 EURHUF), while the WEU and CEE office real estate companies trade at ca. 30 - 35% discount to NAVPS (though they operates prime offices vs. Appeninn only started to rotate to prime assets.

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