

Capital Park

1Q20 conference call highlights

Below please find key takeaways from the post-1Q20 conference call:

- **Development of Fabryka Norblina project.** The company highlighted that the development of Fabryka Norblina goes according to the schedule. In 1Q20 capex on the projects amounted to PLN 27m, while in 2Q20 the company plans to spend ca. PLN 70m. Recently the company has signed three pre-lease agreements for total 12k sqm of GLA and EUR 12m NOI. As a result, the pre-lease level reached 64% (around 70% of office area and ca. 55% of retail area). The management pointed that due to the coronavirus outbreak, some of negotiations regarding retail area are put on hold. As a reminder, the completion of the projects is scheduled in 2Q21 with target NOI of ca. PLN 70m (the company sees upside potential on the rental rents).
- **Disposal processes.** The management informed that the company is still in negotiation process regarding disposal of Royal Wilanów project. Although it was put on hold due to the coronavirus outbreak, the potential buyer is still interested. The company assumes that the potential transaction might be closed still this year.
- **Impact of COVID-19.** The company pointed that COVID-19 outbreak had limited impact on 1Q20 results (deterioration of NOI by ca. 4%), however it will have higher impact on 2Q20 results (around 48% decline of NOI in comparison to the budget). The hotel Hampton by Hilton Old Town Gdańsk is already re-opened, and the management expects the activity to recover in the coming months. Finally, the company pointed at risk of negative revaluations in the coming quarters, however the final impact is still hard to assess.
- **Market outlook.** The management pointed, that the demand on office area still remains at high level (in 1Q20 vacancy ratio in Warsaw deteriorated by 0.3pp q/q to 7.5%). Given the COVID-19 outbreak, some delays in developments might occur in short term, while in long term developers may delay commencement of projects scheduled for the coming years.

***Opinion:** We have neutral impression after the conference call. On one hand, we point at development of Fabryka Norblina according to the schedule (remaining capex estimated at PLN 538m) with high level of pre-lease agreements secured and solid balance sheet. On the other, we point at the risk of negative revaluations (especially on retail projects).*

We point that today is the ex-div day for DPS of PLN 2.10 from 2019 net profit. Consequently, we adjust downwards our Fair Value to PLN 6.89 per share from PLN 8.99 per share.

Real Estate

Capital Park

BUY

FV PLN 6.89

1% downside

Price as of 22 May 2020 PLN 6.96*

*Price adjusted by DPS PLN 2.10

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NII – Net interest income – interest income minus interest expense.
 Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.
 LLP – loan loss provisions – an expense set aside as an allowance for bad loans.
 NPL – non-performing loan – loans that are in default or close to be in default.
 Cost/Income – operating expenses divided by total banking revenue.
 ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.
 ROA – return on assets – net income (or adjusted net income) divided by the average assets.
 EBIT – earnings before interests and tax.
 EBITDA – earnings before interests, tax, depreciation and amortization.
 EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.
 P/E – price to earnings ratio – price divided by earnings per share.
 PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.
 CAGR – compound annual growth rate.
 BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.
 P/BV – price to book value – price divided by the BVPS.
 DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.
 DY – dividend yield – dividend of a given year divided by the current price.
 DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.
 FV – Fair Value, calculated based on valuation methods outlined in the document.

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Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (January 1 – March 31, 2020)

	Number	%
Buy	2	29%
Hold	1	14%
Sell	4	57%
Total	7	100%

Rating History – Capital Park

Date	Recommendation	Fair Value	Price at recommendation	Author
30/07/2019	BUY	PLN 8.50	PLN 5.44	Marek Szymański
11/10/2019	BUY	PLN 8.99	PLN 6.13	Marek Szymański
25/05/2020	BUY	PLN 6.89 (adjusted on 25/05/2020 by PLN 2.10 DPS)	PLN 6.96	Marek Szymański