

Capital Park

2Q20 results review

Capital Park reported its 2Q20 results below our expectations with operating loss of PLN 76.5m (vs. our est. loss PLN 19.3m) driven by negative revaluations of PLN 83m. Below please find key highlights:

- **Revenues** amounted to PLN 14.3m (flat q/q, 19% above our expectations.). As a reminder, a decline of 55% y/y is related to the disposal of shares in Dakota Investment (Eurocentrum Office Complex) in Nov-2019. The company pointed that due to Anti-crisis Shield (temporary discounts for tenants) rental income was lower by 39%.
- **NOI** came in at PLN 10.5m (35% above our expectations), implying NOI margin of 73.5% (comparable y/y).
- **Operating loss** amounted to PLN 76.5m (vs. operating profit of PLN 86.9m in 2Q19 and our forecast loss PLN 19.3m). The result was negatively affected by revaluation loss of PLN 83.0m related to EUR/PLN FX rate and negative impact of COVID-19 outbreak of valuation of properties. The value of retail projects (Royal Wilanów, Galeria Zaspá, Vis-à-vis Łódź) declined given higher yields.
- **Net loss** came in at PLN 61.3m (vs. our est. PLN -9.2m). Net financial income amounted to PLN 5m (vs. our est. PLN 10m) and net results was positively affected by income tax of PLN 10m.
- Operating cash flow amounted to PLN 4.3m, while investing cash flow amounted to PLN 58m (the company estimates remaining capex on Fabryka Norblina of PLN 534m). As of end-2Q20 the company had net debt of PLN 568m (incl. IFRS16). NAV amounted to PLN 9.08 per share as of end-2Q20. As a reminder the company has assets held for sales with NAV of PLN 271m.

Opinion: Negative, as reported results were below our expectations. However we note that around PLN 30m revaluation was related to non-cash FX change, as the company reported that the value of completed projects declined by 2% in comparison to end-4Q19 (from EUR 148m to EUR 146m), while value of projects under construction increased by 7% at the same time (mainly due to capex on Fabryka Norblina project). The company stated that Fabryka Norblina project is developed in line with the schedule (completion planned in 2Q21), while remaining capex on this project amounts to PLN 568m; the project is pre-let in 64%. Capital Park currently trades with nearly 27% discount to its NAV.

Figure 1. Capital Park quarterly results (PLNm)

PLNm	2Q19	3Q19	4Q19	1Q20	2Q20	y/y	2Q20E	vs. Ipopema
Revenues	31.7	31.9	27.8	14.4	14.3	-55%	12.0	19%
Costs related to inv.prop.	-8.0	-8.0	-7.4	-4.4	-3.8	-53%	-3.5	8%
Net operating profit	23.7	23.9	20.4	10.0	10.5	-55%	7.8	35%
G&A costs	-6.7	-5.6	-3.3	-3.2	-3.4	-49%	-3.2	7%
Revaluation of inv.prop.	69.4	61.9	27.5	91.6	-83.0	n.m.	-24.3	n.m.
Gain on disposal	0.0	0.0	130.5	0.0	0.0	n.m.	0.0	n.m.
EBIT	86.9	82.7	169.0	98.0	-76.5	n.m.	-19.3	n.m.
EBIT adj.	17.5	20.7	11.0	6.5	6.6	-62%	5.0	31%
Net financial costs	-4.2	-62.4	35.7	-53.1	5.2	n.m.	10.1	n.m.
Pre-tax profit	82.7	20.2	204.7	44.9	-71.2	n.m.	-9.2	n.m.
Income tax	-17.8	-10.8	-31.8	-13.6	9.9	n.m.	0.0	n.m.
Net profit	64.9	9.4	172.9	31.3	-61.3	n.m.	-9.2	n.m.
NOI margin (%)	74.7%	75.0%	73.5%	69.4%	73.5%	-	65.0%	-
Net debt	1,093	1,180	-91	290	568	-	-	-

Source: Company, IPOPEMA Research, *excluding revaluations and gain on disposals

Real Estate

Capital Park

BUY

FV PLN 8.25

24% upside

Price as of 3 September 2020 PLN 6.66

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The definitions of terms used in the document include:

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

IPOPEMA Research - Distribution by rating category (April 1 – June 30, 2020)

	Number	%
Buy	23	55%
Hold	11	26%
Sell	8	19%
Total	42	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 (adj. on DPS of PLN 2.1)	PLN 6.96	Marek Szymański
22/07/2020	BUY	PLN 8.25	PLN 6.70	Marek Szymański