

# Capital Park

## Valuation still at discount to NAV

Given the disposal of shares in Dakota Investments owning Eurocentrum Office Complex (at a transaction price above the project's BV) and development and commercialization of Fabryka Norblina, we increase our FV from PLN 6.89 to PLN 8.25 per share and maintain a BUY recommendation. We point that the coronavirus COVID-19 outbreak may negatively affect occupancy rates and yields especially in retail projects, but a weaker PLN vs. EUR (currently 4.46x vs. 4.25x as of end-4Q19) would partly compensate the negative revaluations. As major triggers in the coming months we point to the further development of Fabryka Norblina (including an increased occupancy rate) and potential disposals (NAV of assets held for sale of PLN 290m or PLN 2.68/share as of end-1Q20). Finally, we highlight that the company currently trades at 28% and 31% discounts to its 2020E and 2021E BV, respectively.

### Impact of COVID-19 outbreak

The company has reported that due to the COVID-19 outbreak it estimates NOI will come in ca. 48% lower in 2Q20 vs. initially assumed levels. As we assume lower NOI mainly from retail projects (Royal Wilanów, Gdańska Zaspą, Vis a vis) and hotel (Hampton by Hilton in Gdańsk), we cut our revenue forecast to PLN 50m in 2020E and expect recovery in 2021E (supported by completion of the Fabryka Norblina project). Even more importantly, we expect slight pressure on yields, especially with regards to retail projects suffering from diminished traffic after stores re-opening after the lockdown. As a result, we forecast a negative revaluation of PLN 3m in 2020E (impact of COVID-19 to be mitigated by positive revaluations related to the development process and EUR/PLN rate).

### Disposals put on hold

The company had two projects for sale as of end-1Q20: Royal Wilanów (NAV of PLN 205m as of end-1Q20) and Eurocentrum Hotels & Residence (NAV of PLN 85m as of end-1Q20). The company stressed that these transactions remains under negotiation, but due to the pandemic outbreak, they have been temporarily put on hold. We note that proceeds from the potential transactions may be utilized for a dividend payment and new development projects as well (as a reminder, after the disposal of shares in Dakota Investments owning Eurocentrum Office Complex, the AGM decided on a dividend payment of PLN 227.5m or PLN 2.1 per share, paid out in June 2020).

### Development of Fabryka Norblina

The book value of Fabryka Norblina amounted to PLN 719m with outstanding debt of PLN 126m as of end-1Q20 (NAV of PLN 593m or PLN 5.47/share). The company estimates the remaining capex on the project to reach PLN 538m. YTD the company has signed three pre-lease agreements YTD, reaching pre-lease of 64% (70% of office area and 55% of retail area).

Figure 1. Capital Park – Financial summary (PLN m)

	2017	2018	2019	2020E	2021E	2022E
Revenues	125.8	145.8	123.7	50.4	66.9	115.4
EBIT	-5.0	172.0	367.3	24.8	38.1	70.1
EBIT adj.*	79.8	92.8	204.9	27.8	37.8	70.1
Net profit	-14.1	85.3	262.9	-2.2	39.1	41.7
P/E adj.* (x)	14.9	14.6	4.9	46.1	27.0	17.3
P/BV (x)	0.71	0.57	0.55	0.71	0.69	0.66
P/NAV (x)	0.82	0.73	0.58	0.73	0.70	0.68

Source: Company, IPOPEMA Research, \*adjusted for result on property revaluation and remeasurement of financial liabilities

Real Estate

## Capital Park

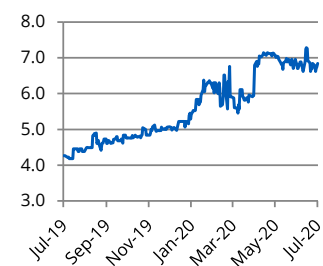
BUY

FV PLN 8.25 from PLN 6.89

23% upside

Price as of 21 July 2020 PLN 6.70

BUY maintained



### Share data

Number of shares (m)	108.3
Market cap (EUR m)	163
12M avg daily volume (k)	6.7
12M avg daily turnover (EUR m)	0.01
12M high/low (PLN)	7.58/4.08
WIG weight (%)	0.07
Reuters	CPGP.WA
Bloomberg	CPG PW

### Total performance

1M	-3%
3M	-1%
12M	58%

### Shareholders

Townsend Holding BV	66.43%
Europi Property Group AB	12.31%
Patron Townsend S.a.r.l.	6.51%
Other	14.75%

### Analyst

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**CAPITAL PARK****BUY****FV PLN 8.25**

Mkt Cap EUR 163m

Upside 23%

Valuation multiples	2018	2019	2020E	2021E	2022E
P/E (x)	14.6	4.9	46.4	27.1	17.4
EV/EBITDA (x)	11.0	2.4	42.2	34.6	18.5
EV/Sales (x)	13.0	7.1	21.3	20.0	11.3
P/BV (x)	0.57	0.55	0.72	0.69	0.66
FCF yield (%)	-8%	180%	-27%	-37%	8%
DY (%)	0%	0%	31%	0%	0%

Per share	2018	2019	2020E	2021E	2022E
No. of shares (m units)	107.5	108.3	108.3	108.3	108.3
EPS* (PLN)	0.36	1.30	0.14	0.25	0.38
BVPS (PLN)	9.07	11.45	9.33	9.69	10.08
FCFPS (PLN)	-0.40	11.44	-1.83	-2.49	0.52
DPS (PLN)	0.00	0.00	2.10	0.00	0.00

Change y/y (%)	2018	2019	2020E	2021E	2022E
Revenues	16.0%	-15.2%	-59.3%	32.8%	72.5%
NOI	16.7%	-15.5%	-59.0%	32.9%	72.5%
EBIT adj.*	16.3%	120.9%	-86.4%	36.0%	85.3%
Pre-tax profit	n.m.	237.4%	n.m.	n.m.	6.7%
Net profit adj.*	-7.9%	268.2%	-88.9%	71.0%	55.9%

Leverage and return	2018	2019	2020E	2021E	2022E
NOI margin (%)	74.5%	74.2%	74.7%	74.8%	74.8%
EBIT adj.* margin (%)	63.6%	165.6%	55.2%	56.6%	60.7%
Net margin adj.* (%)	26.3%	114.2%	31.0%	40.0%	36.1%
Net debt / EBITDA adj.* (x)	13.1	0.9	12.2	16.0	8.2
Net debt / Equity (x)	1.25	0.15	0.34	0.59	0.53
Net debt / Assets (x)	0.47	0.09	0.17	0.29	0.26
ROE (%)	4.1%	12.8%	1.4%	2.6%	3.9%
ROA (%)	1.5%	6.0%	0.8%	1.3%	1.9%
ROIC (%)	4.2%	7.8%	2.0%	1.9%	3.6%

Assumptions	2018	2019	2020E	2021E	2022E
FFO (PLN m)	57.1	176.6	19.3	33.0	51.5
FFO yield (%)	8%	26%	3%	5%	7%
NAV (PLN m)	974.1	1,240.8	989.8	1,027.0	1,063.4
NAV per share (PLN)	9.1	11.5	9.1	9.5	9.8
LTV (%)	55%	82%	52%	48%	48%

P&L (PLN m)	2017	2018	2019	2020E	2021E	2022E
Rental income	125.8	145.8	123.7	50.4	66.9	115.4
Direct property operating expenses	-32.7	-37.3	-32.0	-12.8	-16.9	-29.1
<b>Net operating profit</b>	<b>93.1</b>	<b>108.6</b>	<b>91.8</b>	<b>37.7</b>	<b>50.1</b>	<b>86.4</b>
Administrative expenses	-11.4	-8.4	-21.1	-11.1	-12.7	-14.6
Gain/loss on property revaluation	-84.7	79.2	162.4	-3.0	0.3	0.0
Other operating income (cost) net	-1.9	-7.5	134.2	1.2	0.5	-1.6
<b>EBITDA</b>	<b>-4.6</b>	<b>172.4</b>	<b>367.9</b>	<b>25.4</b>	<b>38.7</b>	<b>70.8</b>
<b>EBIT</b>	<b>-5.0</b>	<b>172.0</b>	<b>367.3</b>	<b>24.8</b>	<b>38.1</b>	<b>70.1</b>
EBIT adj.*	79.8	92.8	204.9	27.8	37.8	70.1
Financial income (cost) net	-37.9	-38.3	-30.5	-8.5	-4.8	-18.6
Remeasurement of fin. liabilities	46.7	-37.1	-11.1	-19.0	15.0	0.0
<b>Pre-tax profit</b>	<b>3.8</b>	<b>96.5</b>	<b>325.7</b>	<b>-2.7</b>	<b>48.2</b>	<b>51.5</b>
Income tax	-25.8	-5.5	-62.8	0.5	-9.2	-9.8
Minorities	-7.8	5.7	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>-14.1</b>	<b>85.3</b>	<b>262.9</b>	<b>-2.2</b>	<b>39.1</b>	<b>41.7</b>
Net profit adj.*	41.7	38.4	141.3	15.6	26.7	41.7

BALANCE SHEET (PLN m)	2017	2018	2019	2020E	2021E	2022E
<b>Non-current assets</b>	<b>2,248.6</b>	<b>2,420.4</b>	<b>983.2</b>	<b>1,190.4</b>	<b>1,501.8</b>	<b>1,504.8</b>
Investment property	2,174.4	2,360.2	890.8	1,109.3	1,418.2	1,418.2
Investments in jointly controlled enti	42.7	54.2	51.1	39.7	42.3	45.3
Other financial assets at fair value	2.6	0.7	33.1	33.1	33.1	33.1
Other non-current assets	28.9	5.3	8.2	8.2	8.2	8.2
<b>Current assets</b>	<b>227.2</b>	<b>149.5</b>	<b>615.4</b>	<b>276.3</b>	<b>102.2</b>	<b>142.2</b>
Trade receivables	11.9	16.1	6.6	2.7	3.6	6.2
Other current assets	22.0	23.1	17.9	11.8	13.2	17.3
Cash and equivalents	193.3	110.3	591.0	261.7	85.3	118.7
Assets held for sale	0.0	0.0	543.4	562.0	549.2	549.2
<b>Total assets</b>	<b>2,475.9</b>	<b>2,569.9</b>	<b>2,142.0</b>	<b>2,028.6</b>	<b>2,153.2</b>	<b>2,196.3</b>
<b>Equity</b>	<b>881.6</b>	<b>974.9</b>	<b>1,240.8</b>	<b>1,011.1</b>	<b>1,050.2</b>	<b>1,091.9</b>
Non-controlling interests	114.9	114.9	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>1,314.7</b>	<b>1,417.1</b>	<b>402.5</b>	<b>510.4</b>	<b>602.7</b>	<b>602.7</b>
Loans and borrowings	1,166.8	1,282.2	295.6	403.5	495.8	495.8
Deferred tax liabilities	132.3	110.0	90.5	90.5	90.5	90.5
Other non-current liabilities	15.6	24.9	16.3	16.3	16.3	16.3
<b>Current liabilities</b>	<b>164.6</b>	<b>63.0</b>	<b>215.6</b>	<b>214.4</b>	<b>214.2</b>	<b>215.6</b>
Trade payables	16.6	7.6	3.6	1.4	1.9	3.3
Loans and borrowings	136.6	43.2	192.7	193.6	193.0	193.0
Other current liabilities	11.4	12.2	19.4	19.4	19.4	19.4
Liabilities related to assets for sale	0.0	0.0	283.0	292.7	286.1	286.1
<b>Equity &amp; liabilities</b>	<b>2,475.9</b>	<b>2,569.9</b>	<b>2,142.0</b>	<b>2,028.6</b>	<b>2,153.2</b>	<b>2,196.3</b>
Gross debt (PLN m)	1,307.9	1,330.7	782.9	608.7	700.4	700.4
<b>Net debt (PLN m)</b>	<b>1,114.6</b>	<b>1,220.4</b>	<b>191.9</b>	<b>346.9</b>	<b>615.0</b>	<b>581.7</b>

CASH FLOW (PLN m)	2017	2018	2019	2020E	2021E	2022E
<b>Operating cash flow</b>	<b>86.1</b>	<b>106.2</b>	<b>85.8</b>	<b>22.9</b>	<b>44.1</b>	<b>58.0</b>
Net income	-14.1	85.3	262.9	-2.2	39.1	41.7
Revaluations	38.0	-42.1	-151.3	3.0	-0.3	0.0
D&A	0.4	0.4	0.6	0.6	0.6	0.6
Change in WC	3.6	-13.2	5.5	1.7	-0.4	-1.3
Other	58.2	75.8	-31.9	19.8	5.1	16.9
<b>Investment cash flow</b>	<b>-89.0</b>	<b>-115.1</b>	<b>385.6</b>	<b>-229.4</b>	<b>-299.0</b>	<b>-3.6</b>
Change in investment properties	-174.8	-106.6	1,088.5	-240.2	-295.9	0.0
Change in JV	2.0	-11.5	3.1	11.4	-2.5	-3.0
Other	83.7	3.0	-705.9	-0.6	-0.6	-0.6
<b>Financial cash flow</b>	<b>39.7</b>	<b>-74.1</b>	<b>22.5</b>	<b>-122.7</b>	<b>78.5</b>	<b>-21.0</b>
Change in equity	0.0	0.0	0.0	0.0	0.0	0.0
Change in debt	95.2	-31.9	61.8	118.5	85.0	0.0
Dividend paid	0.0	0.0	0.0	-227.5	0.0	0.0
Interest paid	-55.5	-42.3	-39.3	-13.8	-6.5	-21.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Change in cash</b>	<b>36.8</b>	<b>-83.0</b>	<b>493.9</b>	<b>-329.3</b>	<b>-176.4</b>	<b>33.3</b>
<b>Cash as of eop</b>	<b>193.3</b>	<b>110.3</b>	<b>591.0</b>	<b>261.7</b>	<b>85.3</b>	<b>118.7</b>

Source: Company data, IPOPEMA Research, \*adjusted by revaluation of investment properties and remeasurement of financial liabilities

# Valuation

We value Capital Park using the NAV valuation method (100% weight) and a multiples valuation (0% weight only for presentation purposes).

Figure 2. Capital Park – Valuation summary

Valuation method	Weight (%)	FV (PLN/share)
NAV valuation	100%	8.25
Multiples valuation	0%	6.32
<b>Fair value</b>		<b>8.25</b>
Current price		6.70
Upside/downside		23%

Source: Company, IPOPEMA Research

## NAV valuation

We base our NAV on the fair value of the company's properties deducting financial liabilities, deferred tax liabilities and provisions for each respective year. Our valuation includes the development of the ArtN project (assuming completion in 1Q21) and excludes the development of the Eurocentrum Hotel & Residence project. We arrive at a FV for Capital Park of PLN 8.25 per share using the NAV method.

Figure 3. Capital Park – NAV valuation (PLN m)

(PLNm)	2020E	2021E	2022E	2023E	2024E
(+) Investment property	1,109.3	1,418.2	1,418.2	1,418.2	1,418.2
(+) Investments in jointly controlled entities	39.7	42.3	45.3	48.3	0.0
(+) Financial assets	33.1	33.1	33.1	33.1	33.1
(+) Cash and cash equivalents	261.7	85.3	118.7	156.9	246.0
(+) Assets held for sale	269.3	263.2	263.2	263.2	263.2
(-) Long-term debt	413.0	505.4	505.4	505.4	505.4
(-) Short-term debt	195.6	195.0	195.0	195.0	195.0
(-) Deferred tax liabilities & provisions	114.7	114.7	114.7	114.7	114.7
(-) Non-controlling interests	0.0	0.0	0.0	0.0	0.0
<b>(=) NAV (PLNm)</b>	<b>989.8</b>	<b>1,027.0</b>	<b>1,063.4</b>	<b>1,104.6</b>	<b>1,145.4</b>
Number of shares (m)	108.3	108.3	108.3	108.3	108.3
NAV/share (PLN)	9.14	9.48	9.82	10.20	10.57
Discount factor	97%	90%	84%	78%	72%
NAV/share (PLN)	8.8	8.5	8.2	8.0	7.6
<b>FV (PLN)</b>	<b>8.25</b>				
Current price (PLN)	6.70				
Upside/downside (%)	23%				

Source: Company, IPOPEMA Research

Figure 4. Capital Park – WACC calculation

	2020E	2021E	2022E	2023E	2024E
Risk free rate (%)	2.0%	2.0%	2.0%	2.0%	3.0%
Levered beta (x)	1.5	1.5	1.5	1.5	1.5
Risk premium (%)	5.0%	5.0%	5.0%	5.0%	5.0%
<b>Cost of Equity (%)</b>	<b>9.4%</b>	<b>9.7%</b>	<b>9.6%</b>	<b>9.5%</b>	<b>10.4%</b>
Cost of Debt (%)	5.0%	5.0%	5.0%	5.0%	5.0%
Tax rate (%)	19.0%	19.0%	19.0%	19.0%	19.0%
<b>After tax cost of debt (%)</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.1%</b>
<b>WACC (%)</b>	<b>7.4%</b>	<b>7.4%</b>	<b>7.4%</b>	<b>7.4%</b>	<b>8.0%</b>

Source: Company, IPOPEMA Research

Figure 5. NAV/share valuation sensitivity (PLN)

Percentage change of rental rate (EUR/sqm)	Yield (%)					
	-5.0%	-0.50%	-0.25%	0.00%	0.25%	0.50%
-5.0%	8.23	8.22	8.21	8.20	8.19	
-2.5%	8.25	8.24	8.23	8.22	8.21	
<b>0.0%</b>	8.27	8.26	<b>8.25</b>	8.24	8.22	
2.5%	8.29	8.28	8.27	8.25	8.24	
5.0%	8.31	8.30	8.29	8.27	8.26	

Source: Company, IPOPEMA Research

Figure 6. NAV/share valuation sensitivity on EUR/PLN in terminal (PLN)

	EUR/PLN (x)								
	4.00	4.05	4.10	4.15	4.20	4.25	4.30	4.35	4.40
NAV/share	8.17	8.18	8.19	8.21	8.22	8.23	<b>8.25</b>	8.38	8.51

Source: Company, IPOPEMA Research

## Peer comparison

We present a multiple valuation by comparing Capital Park to Polish and European commercial developers, based on the P/BV multiple. Due to different business models and scale of operation, we give 0% weight to the method. Based on the P/BV valuation, Capital Park currently trades at around 30% discount to its BV in 2020-21E.

Figure 7. Capital Park – Peer comparison

Company	BBG Ticker	Price	mCap	P/BV (x)		
		(local)	(PLNm)	2020E	2021E	2022E
Echo Investment	ECH PW Equity	3.94	1,626	0.91	0.88	0.83
Globe Trade Centre	GTC PW Equity	6.40	3,108	0.65	0.65	0.65
Immofinanz AG	IIA AV Equity	15.90	8,692	0.58	0.56	0.51
CA Immobilien	CAI AV Equity	28.00	12,267	0.85	0.80	0.74
Unibail-Rodamco-Westfield	URW NA Equity	50.46	30,981	0.36	0.45	0.43
Atrium European Real Estate	ATRS AV Equity	2.56	4,289	0.57	0.57	0.58
S Immo	SPI AV Equity	16.12	5,261	0.86	0.86	0.84
Median				0.65	0.65	0.65
<b>Capital Park</b>	<b>CPG PW Equity</b>	<b>6.70</b>	<b>726</b>	<b>0.72</b>	<b>0.69</b>	<b>0.66</b>
Premium/discount (%)				10%	6%	3%
Implied FV/share				6.08	6.35	6.52
Average implied FV/share (PLN)					<b>6.32</b>	

Source: Company, IPOPEMA Research

## Forecast revisions

Below we present the revision of our financial forecasts for 2020-22E. The deterioration of forecasts is mainly related to the disposal of the company's share in Dakota Investments (owner of Eurocentrum Office Complex) that took place in 4Q19, and the COVID-19 outbreak.

Figure 8. Capital Park – financial forecasts revision (PLNm)

	2020E NEW	2020E OLD	change	2021E NEW	2021E OLD	change	2022E NEW	2022E OLD	change
Rental income	50.4	123.8	-59%	66.9	139.7	-52%	115.4	190.0	-39%
Direct property operating expenses	-12.8	-31.4	-59%	-16.9	-35.3	-52%	-29.1	-48.0	-39%
<b>Net operating profit</b>	<b>37.7</b>	<b>92.4</b>	<b>-59%</b>	<b>50.1</b>	<b>104.4</b>	<b>-52%</b>	<b>86.4</b>	<b>142.1</b>	<b>-39%</b>
Administrative expenses	-11.1	-11.1	0%	-12.7	-12.7	0%	-14.6	-14.6	0%
Gain/loss on property revaluation	-3.0	3.6	-183%	0.3	25.0	-99%	0.0	0.0	#DIV/0!
Other operating income (cost) net	1.2	-1.7	-172%	0.5	-2.5	-120%	-1.6	-4.7	-66%
<b>EBITDA</b>	<b>25.4</b>	<b>83.8</b>	<b>-70%</b>	<b>38.7</b>	<b>114.8</b>	<b>-66%</b>	<b>70.8</b>	<b>123.2</b>	<b>-43%</b>
<b>EBIT</b>	<b>24.8</b>	<b>83.3</b>	<b>-70%</b>	<b>38.1</b>	<b>114.3</b>	<b>-67%</b>	<b>70.1</b>	<b>122.7</b>	<b>-43%</b>
<b>EBIT adj.*</b>	<b>27.8</b>	<b>79.7</b>	<b>-65%</b>	<b>37.8</b>	<b>89.2</b>	<b>-58%</b>	<b>70.1</b>	<b>122.7</b>	<b>-43%</b>
Financial income (cost) net	-8.5	-31.9	-73%	-4.8	-34.6	-86%	-18.6	-49.1	-62%
Gain/loss on remeasurement of fin. liab.	-19.0	0.0	n.m.	15.0	0.0	n.m.	0.0	0.0	n.m.
<b>Pre-tax profit</b>	<b>-2.7</b>	<b>51.4</b>	<b>-105%</b>	<b>48.2</b>	<b>79.6</b>	<b>-39%</b>	<b>51.5</b>	<b>73.5</b>	<b>-30%</b>
Income tax	0.5	-9.8	-105%	-9.2	-15.1	-39%	-9.8	-14.0	-30%
<b>Net profit</b>	<b>-2.2</b>	<b>41.6</b>	<b>-105%</b>	<b>39.1</b>	<b>64.5</b>	<b>-39%</b>	<b>41.7</b>	<b>59.6</b>	<b>-30%</b>
<b>Net profit adj.*</b>	<b>15.6</b>	<b>38.7</b>	<b>-60%</b>	<b>26.7</b>	<b>44.2</b>	<b>-40%</b>	<b>41.7</b>	<b>59.6</b>	<b>-30%</b>

Source: Company, IPOPEMA Research

## 2Q20 outlook

We expect the company to report an operating loss of PLN 19m and a net loss of PLN 9m in 2Q20E. We forecast revenues of PLN 12.0m (deterioration in comparison to PLN 31.7m reported in 2Q19 due to the disposal of shares in the Eurocentrum Office Complex and negative impact of the Anti-Crisis shield implemented by the Polish government in response to the coronavirus outbreak) and gross profit of PLN 7.8m. With comparable q/q SG&A costs, we expect the operating loss to amount to PLN 19.3m. In our forecasts, we assume a mainly negative impact of the EUR/PLN revaluation (EBIT ex. revaluations of PLN 5.0m). At the bottom line, we expect a loss of PLN 9.2m, despite a gain on measurement of financial liabilities of PLN 14.0m.

Figure 9. Capital Park quarterly results summary (PLNm)

	2Q19	3Q19	4Q19	1Q20	2Q20E	y/y
Revenues	31.7	31.9	27.8	14.4	12.0	-62%
Costs related to inv.prop.	-8.0	-8.0	-7.4	-4.4	-3.5	-56%
Net operating profit	23.7	23.9	20.4	10.0	7.8	-67%
G&A costs	-6.7	-5.6	-3.3	-3.2	-3.2	-53%
Revaluation of inv.prop.	69.4	61.9	27.5	91.6	-24.3	n.m.
Gain on disposal	0.0	0.0	130.5	0.0	0.0	n.m.
<b>EBIT</b>	<b>86.9</b>	<b>82.7</b>	<b>169.0</b>	<b>98.0</b>	<b>-19.3</b>	<b>n.m.</b>
<b>EBIT adj.</b>	<b>17.5</b>	<b>20.7</b>	<b>11.0</b>	<b>6.5</b>	<b>5.0</b>	<b>-72%</b>
Net financial costs	-4.2	-62.4	35.7	-53.1	10.1	n.m.
Pre-tax profit	82.7	20.2	204.7	44.9	-9.2	n.m.
Income tax	-17.8	-10.8	-31.8	-13.6	0.0	n.m.
<b>Net profit</b>	<b>64.9</b>	<b>9.4</b>	<b>172.9</b>	<b>31.3</b>	<b>-9.2</b>	<b>n.m.</b>

Source: Company, IPOPEMA Research

## Key risk factors

The key risk factors to our valuation and estimates are:

- **Potential pressure on rental rates and yields.** Capital Park operates mainly in the Warsaw office market in Warsaw. Capital Park is developing the ArtN project near the Rondo Daszyńskiego district, where we estimate that around 300k sqm of new office space will have been created by the end of 2021. This may put downward pressure on rental rates in Warsaw, resulting in less favourable yields. Also macro conditions could deteriorate in Poland which could result in the loss of tenants in the existing areas.
- **Delays in development schedule.** The company has two projects in the pipeline, with ArtN under construction and Eurocentrum in the early planning phase. Our forecasts only assume the development of the ArtN project, but any delays (related to administrative issues, construction delays, etc) may create the risk of later recognition of revaluation gains.
- **Risk related to loss of tenants.** Any potential loss of tenants for office and retail space, as well as difficulties in finding such tenants for the vacant space and for development projects, could result in lower rental income and the valuation of the property. In addition, low occupancy rates would impact the company's ability to raise bank financing or dispose of projects.
- **Risk related to the increase of construction costs.** Capital Park's Fabryka Norblina project is under construction. As of end-1Q20, the company estimated the remaining capex for Fabryka Norblina at PLN 538m. Any potential increase in construction costs may result in lower profit recognized on the project and in lower cash generation in the long-term.
- **Risk related to the valuation and the disposal of investment properties.** As of end-2Q19, the value of investment properties accounted for around 90% of the value of total assets. Any inappropriate assumptions might lead to a mis-valuation of property, with the book value not reflecting the fair value properly. Additionally, the revaluation of properties due to different economic conditions could impact the financial results.
- **Changes in the EUR/PLN exchange rate.** The value of investment properties and bank debt is sensitive to the EUR/PLN exchange rate, as the valuation is based on the EUR denominated rents, while the company reports its financial results in PLN. Any increase/decrease in the EUR/PLN exchange rate results in higher/lower respective values of investment properties and financial liabilities denominated in EUR.
- **Risk related to the coronavirus outbreak.** We direct attention to the possibility that the coronavirus outbreak may change the habits of customers in retail projects, as well as demand for office area. Additionally, it may result in postponement of transactions.
- **Shareholder structure.** In March 2019, Madison International Realty LLC, a global real estate investment company, signed a preliminary agreement regarding the acquisition of 65.99% of shares in Capital Park S.A. from Patron Capital Partners. The transaction was completed in May 2019 and Madison increased its stake to 66% in July 2019. Furthermore, Madison International Realty has a call option to acquire an additional 5.5% in shares from Patron Townsend S.a.r.l.; however, no further details have been provided.

## ESG Section

Below we present our ESG analysis of Capital Park's operations:

**Environmental.** The company develops its projects in compliance with sustainable building principles throughout the design, construction and operation phases. As a result, the Eurocentrum Office Complex (recently sold) received the highest LEED Platinum 'green' rating, while Royal Wilanów and Fabryka Norblina (project under construction) received BREEAM certificates with 'Very Good' ratings. Capital Park also fosters a responsible attitude among its employees, tenants and local residents (including effective waste management, using rainwater for toilet flushing and plant watering in atria, optimizing electricity and heat consumption using the Virtual Power Plant technology, supporting sustainable transport offering extensive infrastructure for cyclists and electric car drivers, promoting urban beekeeping, and planting of an anti-smog meadow). The company has also developed an Environmental Education Programme and special 'green' guide for tenants to encourage them to actively engage in environmental protection initiatives and to develop eco-friendly habits in their daily life.

**Social responsibility.** The company develops its projects with a focus not only on working and shopping areas, but also creates space for people – integrating local communities, educating them in pro-social and pro-environmental matters, offering cultural entertainment. Capital Park's projects have hosted sport events (charity runs, disease prevention events and campaigns encouraging alternative means of transport), cultural projects (concerts, theatre performances, open air cinema shows), and auctions for the Great Orchestra of Christmas Charity. Finally, the company supports women in the real estate industry and promotes equal opportunities in business.

**Governance.** Capital Park has been listed on the Warsaw Stock Exchange since December 2013. We point at long-term involvement of the board and its experience in property development. The company also regularly holds meeting with the investors after quarterly earnings publications, when the board answers investors' questions. The company publishes its quarterly and annual reports in a timely manner. We also highlight clear accounting standards and the high quality of presented financial data.

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 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.  
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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 (adjusted on 25/05/2020 by PLN 2.1 DPS)	PLN 6.96	Marek Szymański
22/07/2020	BUY	PLN 8.25	PLN 6.70	Marek Szymański