EfTEN Real Estate Fund III AS (EFT1T ET)

Company Update

14th June 2021

Corporate Sponsored Research

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EfTEN: Company Update

Investment Summary

EfTEN Real Estate Fund III (hereinafter referred to as the 'Fund' or 'EfTEN) is a regulated, evergreen, closed-end fund focused on real estate investments. It was registered in Estonia on 5th June 2015, and, together with the management company, EfTEN Capital AS, is supervised by the Estonian Financial Supervisory Authority. The Fund has been listed on the Nasdaq Baltic Main List since 1st December 2017, following an initial public offering ('IPO').

The Fund invests directly in commercial real estate in the Baltic states, primarily targeting properties that are already cash-generating. EfTEN targets properties that are strategically located in the retail, office, and logistics segments, with reliable tenants and predominantly long-term leases. EfTEN's goal is to achieve a long-term dividend payout ratio of 80% of free cash flow (EBITDA minus interest payments, minus loan principal repayments, minus income tax expenses from profit). The Fund is managed by EfTEN Capital AS, the largest commercial real estate fund manager in the Baltic states. As of 2020, total assets managed by EfTEN Capital AS reached EUR 800m. EfTEN Capital AS employs over 50 people with offices in all three Baltic countries, currently operating four real-estate funds, smaller real estate portfolios and private mandates.

Despite the economic setback caused by the COVID-19 pandemic, the Fund made four new investments during 2020, investing a total of EUR 33.5m. As at the end of Q1 2021, the Fund had 15 commercial real estate investments with a fair value of EUR 144.8m and an acquisition cost of EUR 136.8m, while the total vacancy rate was only 0.8%. In June 2021, the Fund completed a successful rights issue, raising over EUR 15m of new equity, a part of which will be used to refinance current liabilities, while about EUR 10m is targeted for new investments, accompanied by a similar size of debt capital.

In order to assess the value of the Fund, we used six metrics, including 1) P/E, 2) P/B, 3) EV/EBIT, 4) Cash Distribution Yield, 5) P/EPRA NRV & Net Initial Yield correlation, and 6) Cash Distribution Discount Model ('CDDM'). We decided to prefer the correlation implied P/EPRA NRV and CDDM as more prominent valuation metrics for the Fund, compared to other peer valuation metrics. Thus, we have given P/EPRA NRV a 40% weight (up from 30% in our previous valuation update) and the CDDM a 20% weight in the total value, leaving the total contribution of other metrics at 40% (down from 50%), including a 10% weight for each multiple. Overall, we decided to upgrade our FVR from EUR 19.30-20.30 to EUR 20.30-21.70 per share. Please note that our new FVR range represents post-money ex-dividend valuation for the stock (i.e. adding the funds from the rights issue and respective investments, but excluding the 2021 dividend). Major risk factors to our valuation are related to the aftermath of the COVID-19 pandemic, including a potential third wave, which may cause a slower than predicted recovery of the economic conditions in the Baltics, pressuring occupancy and rental rates.

Key Numbers (EURm)	2018	2019	2020	2021E*	2022E*	2023E*
Sales (EURm)	8.7	9.5	10.7	12.2	14.2	14.4
Sales growth (%)	18.8	9.7	12.8	13.3	17.2	1.0
Net profit (EURm)	6.3	7.6	3.3	7.8	9.8	9.9
EPS (EUR)	1.95	2.01	0.79	1.54	1.92	1.95
P/E (x)	8.3	8.9	27.8	14.2	11.3	11.2
Payout per share (EUR#	0.68	0.95	0.65	0.66	0.88	0.97
Payout yield (%)	4.2	5.3	3.0	3.0	4.1	4.5
P/B (x)	1.0	1.1	1.3	1.0	1.1	1.1
EV/Sales (x)	11.6	12.4	14.8	13.1	11.2	11.1
EV/EBITDA (x)	14.9	15.8	18.6	16.1	13.9	13.7
EV/EBIT (x)	12.1	11.7	31.1	15.3	12.5	12.3
ROE (%)	13.0	12.5	4.7	9.6	10.3	9.9

Source: EFT1T, LHV *2021E-2023E multiples are based on the share price 10th June 2021) of EUR 21.80 per share # Payout per share include dividends and share capital reduction.

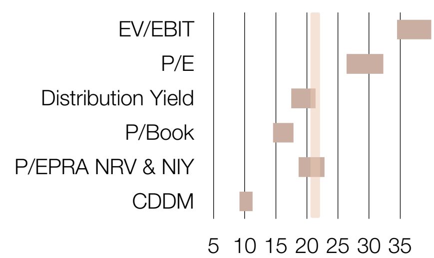
Company Profile	
Listing Market:	Baltic Main List
Bloomberg Ticker:	EFT1T ET
ISIN:	EE3100127242
Industry (Bloomberg):	Financials
Sector (Bloomberg):	Financial Services
Website:	www.eref.ee

Share Data, as of 10th June 2021	
Current Share Price (EUR):	21.80
Fair Value Range (FVR), EUR:	20.30-21.70
Downside, % (to mid-point of FVR):	3.67
52-week High/Low (EUR):	22.50/16.50
3m Avg. Daily Volume (th):	0.88
Market Cap (EURm):	92.05
Ordinary Shares (m):	4.22

Key Shareholders, as of 10th June 2021	
Altius Capital OÜ	14.26%
Järve Kaubanduskeskus Osaühing	10.23%
OÜ Hoiukonto	10.19%

12-Month Price Performance

LHV Fair Value Range: EUR 20.30-21.70*



* As of 14th June 2021

Macro Environment

Similar to most of the world, in 2020, the COVID-19 pandemic impacted the Baltic states' economies quite significantly and led to a contraction of GDP numbers throughout the region. However, the negative impact remained softer compared to Western Europe and the Eurozone averages. In 2020, on average, the GDP in the Eurozone contracted by 6.8%, while the GDP in Estonia decreased by 2.9%, in Latvia by 3.5%, and in Lithuania by just 0.9%. The contraction was mostly caused by a decline in leisure, transport, hospitality, and catering services. On the positive side, all three economies started to recover in Q3 2020, with further improvements witnessed towards the end of the last year. In 2021, positive trends are expected to continue, which should bring the economies back to the pre-pandemic levels in all three Baltic countries. Although the second wave of the pandemic turned out more serious than initially predicted, causing disruptions of operations in many business sectors, especially concerning transport and retail trade, we see relatively limited negative effects on the Baltic economies. The GDP growth of the Baltic region is estimated to reach close to 3% this year. Adding to the positives, as the vaccination process has accelerated and additional EU support funds start rolling in, the growth is projected to accelerate further to closer to 5% in 2022, at the same time being more broad-based. The overall negative effect of the pandemic on this year's performance is forecast to remain mild and concentrated in a few sectors, most of them dependent on tourism and physical contact. While economic sentiment remains below the pre-pandemic level, most businesses and households are likely to see much brighter prospects than they did last spring. Manufacturing is performing well, unlike last spring, and export orders suggest that exporting sectors will continue driving the recovery for now. Households in the Baltic countries have accumulated excess savings, as indicated by the considerable increase in the deposits, and we expect at least some of these savings to further boost domestic demand later this year as well as in 2022. In the second half of 2021, as a larger share of the population is vaccinated and the pandemic becomes less dangerous in the Baltics, households are likely to start spending more eagerly, especially on services unavailable during the lockdowns. All three Baltic countries continue supporting their economies with expansionary fiscal policy, with public sector deficits exceeding 5% of GDP this year. However, there is a tangible medium-term risk of overheating in all three Baltic countries, especially in sectors that are likely to feel the biggest tailwinds from the EU funds, e.g. construction. Inflation is likely to increase this year due to base effects, higher transportation costs, and commodity prices, while accelerating economic activity and continued strong wage growth may push inflation rates towards 3%.

Real Estate Investment Market

According to the Colliers International's (hereinafter referred to as 'Colliers') latest quarterly property market snapshot, the total volume of the Baltic real estate investment market amounted to nearly EUR 300m in Q1 2021, decreasing c.a. 8% in comparison to the respective Q1 2020 activity. However, the breakdown of the investment market transactions by countries looks considerably different from last year, with a significantly lower volume of deals recorded in Estonia, while the quarterly investment volume more than doubled y-o-y in Lithuania and remained relatively stable in Latvia. In Estonia, the total known investment volume amounted to c.a. EUR 53m in Q1 2021, down around 70% y-o-y, but the sharp drop can be mostly attributed to one large deal registered in Q1 last year – the sale of a portfolio of municipal rental apartments in Tallinn for over EUR 140m. The Q1 2021 Estonian transaction volume includes the sales of two hotel properties in the Old Town of Tallinn as well as several notable deals in industrial properties, mostly concerning logistics projects. Also, the market has witnessed a substantial boost in land acquisitions in Tallinn and its suburbs. The Latvian investment market has seen increased activity in the industrial segment, as investors are actively looking to diversify from typical office and retail. For example, SG Capital completed its first acquisition, buying a large industrial land piece in Dreilini. However, also the residential segments saw a notable transaction, with BTA Baltic Insurance Group acquiring a block of 150 apartments in three projects from Rentejas. Total investment volume in Latvia reached EUR 75m in Q1 2021, up 25% y-o-y, while prime yields remained unchanged. In Lithuania, the investment activity picked up further from Q4 2020, amounting to EUR 166m, more than double the respective volume in Q1 2020. A majority of the transaction volume was formed by the retail segment, driven by the acquisition of Depo stores by Corum, a French company. Other notable deals included a complex of three buildings with industrial, logistics, and office space, acquired by EfTEN Capital from Arginta Group. In terms of prime property yields, the Baltic market generally saw yields remaining steady in Q1 2021 compared to the previous quarter. As a reminder, during 2020, the yields generally moved upwards in the retail segment, at the same time slightly declining in the office and industrial segments, compared to 2019. The only notable change during the last quarter was the compression of prime yields in the Lithuanian industrial segment, pressured by strong interest. Based on the Colliers' report, the recent developments in the market segments in which EfTEN operates can be summarised as follows:

Office Segment

The Baltic office market exhibited strong confidence and resilience despite the COVID-19 pandemic. The Tallinn office market remains active, with a total area of c.a. 130,000 sqm (14 projects) under construction in March 2021. Q1 2021 saw the start of construction works on two sizeable new projects with a total gross leasable area ('GLA') of over 46,000 sqm in Tallinn. Kapitel and Merko started construction works on the Liivalaia business and residential quarter with a total GLA of 28,000 sqm, which is planned to complete in 2024. Kawe also started works on the new Kawe City office building. Average vacancy remains broadly steady at around 9%, though hidden vacancy continues to grow as more companies are seeking to decrease or sublease their space. In Riga, the pandemic has been increasing hidden vacancy, as many office workers are still operating remotely. No new larger office projects are expected to be added to the market during 2021, but there are three larger projects under construction to be completed in 2022, including Verde, Preses Nams, and Novira Plaza. However, the lack of new projects has slightly reduced overall vacancy rates. In Vilnius, the office market started the year in an active manner, with three new business centres completed (Lvovo, stage IV of S7 office complex, stage I of Business Garden Vilnius), jointly adding a GLA of 36,500 sqm. At the end of Q1 2021, the development activity remained high, with over ten new office projects under construction (GLA of 197,200 sqm), while the three largest properties form around half of the pipeline.

Retail Segment

There is a downward trend in the Baltic retail real estate market, especially in the consumer discretionary market. Retail continues to adjust to the new reality caused by the pandemic and related business restrictions. In Tallinn, the retail market was hit again by heavy restrictions from 11th March, and uncertainty remained high, thus leaving leasing activity rather calm during the quarter. Estonia's first full-size IKEA store of 28,700 sqm is planned to be opened in Kurna village, near Tallinn, in autumn 2022. On the other hand, the grocery sub-segment has remained active, with Maxima, Prisma, Selver, and Rimi all planning new developments across Tallinn, though the completion times are scheduled for 2022. The Riga retail market continued to struggle with the lockdown measures, which became even tougher and hurt turnover and footfall figures in all types of retail concepts. Shopping centres vacancy levels continue to rise, as it is difficult to attract new tenants during lockdowns. There is an interest from new brands to enter the market, but they are mostly waiting for the pandemic to end before making any specific plans. In terms of the Vilnius retail market, it remained broadly stable in Q1 2021, while retailers saw a partial lifting of the movement restrictions for stores and also demonstrated adaptability to the changes in the environment. Although vacancy in prime shopping centres increased slightly during the last quarter, it remained relatively low at c.a. 2%, compared to over 4% in Tallinn and nearly 7% in Riga.

Industrial Segment

The logistics and industrial segment has remained quite resilient. Generally, due to e-commerce growth, supporting consumer spending and manufacturing output, there has been an improvement in investor confidence in the sector. In Tallinn and its suburbs, the total area of new developments under construction amounted to 114,000 sqm as of Q1 2021, up from 89,100 sqm (12 projects) at the end of 2020, mostly including stock-offices and mini-warehouses, with the demand for new space being driven by logistics operators and retailers. In Riga, the segment saw the completion of part of the second stage of Green Park by Piche, but no other notable projects have been added to the market. The growth in vacancy levels is possible in 2021, as c.a. 120,000 sqm of new logistics space remain under conduction and are actively offered to prospective tenants. In Vilnius, the development pipeline in the segment remains active, as several new warehouse properties are under construction, together amounting to a GLA of 78,000 sqm. On the other hand, demand also remains quite active from distribution, logistics, and production companies, reflected in low vacancy rates in Vilnius at 1.8%, compared to 4.1-4.3% in Tallinn and Riga.

Overall, there was a strong interest for the new shares, both from the existing shareholders and other investors, as the issue was 3.6 times oversubscribed. A total of 4,564 subscription orders were submitted for the total amount of EUR 54.6m. According to the Fund, the existing shareholders exercised their pre-emptive rights to the extent of 85.5% of the issued shares. Please note that EfTEN had a total of 3,568 shareholders as of 29th May this year, while 2,332 of them participated in the offering. The number of new shares distributed based on the pre-emptive rights amounted to 726,864. The supervisory board of the Fund decided to distribute the remaining part of the offering, i.e. 123,136 new shares, as follows: the subscription order limit was set at 698 shares, and all investors were allocated shares proportionally according to their adjusted subscription volume after the preferential allocation. Effectively, such allocation principles enabled to add 2,232 new shareholders to the Fund's investor base, lifting the total number of shareholders to c.a. 5,800. Although the offering was strongly oversubscribed, we would be somewhat careful in describing the real potential interest, keeping in mind the fact the offer was arranged at a notable discount to the market price of the shares. The element of pre-emptive rights likely led some new investors to inflate their subscription volumes, as they already assumed a strong demand for the shares leftover from the preferential allocation.

At this point, the use of proceeds from the offering is known only partially, while the Fund is constantly looking around and negotiating potential new investments. According to the information available, about EUR 3m of the proceeds will be used for the refinancing of the bridge loan facility from Swedbank, used for the latest acquisition of the Pirita Pansionaat property in December 2020. Also, the Fund plans to direct EUR 1m to partially refinance the loan taken from Luminor Bank for the acquisition of the airBaltic's headquarters building last year, while c.a. EUR 0.7m is aimed to finance the construction of an additional restaurant building on the Saules Miestas shopping centre property in Lithuania. Regarding the rest of the funds raised from the issue, the Fund has disclosed that it is about to sign a new property acquisition in the logistics segment in Lithuania for a total amount of around EUR 10m, of which EUR 5m would be financed from equity capital. Considering all disclosed and planned investments, the Fund has over EUR 5m of additional equity from the issue that can be used for future investments, but for which there are no specific investment targets yet.

Prime Yields by segment in Q1 2021	Estonia	Latvia	Lithuania
Office	6.10%	6.00%	5.50%
Retail	6.50%	7.00%	7.00%
Industrial	7.30%	7.50%	7.25%

Source: Colliers

Prime Yields by segment in Q4 2020	Estonia	Latvia	Lithuania
Office	6.1%	6.0%	5.5%
Retail	6.5%	7.0%	7.0%
Industrial	7.3%	7.5%	7.5%

Source: Colliers

New Share Issue Successfully Completed

On its annual general meeting of shareholders, convened on 15th April this year, the shareholders of the Fund approved the increase of the share capital by issuing 850,000 new shares with a nominal value of EUR 10 per share, accordingly lifting the share capital by EUR 8.50m to EUR 50.73m. It was decided that the minimum issue prices should be EUR 17.50 per share, which can be later adjusted upwards according to the respective decision by the supervisory board of the Fund, ahead of the subscription period. The final issue price was set at EUR 17.80 per share, bringing the total issue size to EUR 15.1m, while the subscription period lasted from 14th May till 31st May 2021. The primary goal of the issue was to continue the investment activities of the Fund and further expand its property portfolio. The existing shareholders of the Fund who had been entered in the list of shareholders as of 29th April had a pre-emptive right to subscribe for the new shares in proportion (20.13%) to the sum of their holdings.

Portfolio Update – New Investments In Sight After Busy 2020

Following a quite busy year of 2020 in terms of new investments, the Fund is already targeting new acquisitions, driven by the recent SPO, raising EUR 15m of additional equity, although nearly EUR 5m of this is allocated for the refinancing of existing liabilities. As a reminder, despite the economic setback caused by the COVID-19 pandemic, the Fund made four new investments during 2020. In February 2020, two transactions were completed in Latvia by purchasing Piepilsetas logistics and production centre in Kekava near Riga and airBaltic's headquarters in the territory of Riga airport. The transactions were finalised at the end of February 2020, and the financials of the two new subsidiaries have been consolidated line by line in the Fund's financial statements since 1st March 2020. A total of EUR 8.9m was paid for the subsidiaries, including EUR 3.8m in loan receivables from former owners. In August 2020, the Fund invested in the Rutkausko office building in Vilnius, where the Lithuanian subsidiary of ATEA (an IT company) is a long-term anchor-tenant. The acquisition cost of the property was EUR 11.8m, and it was financed with 39% of equity funding, as a result of which the entire balance left from the Fund's 2019 rights issue of EUR 16m has been invested.

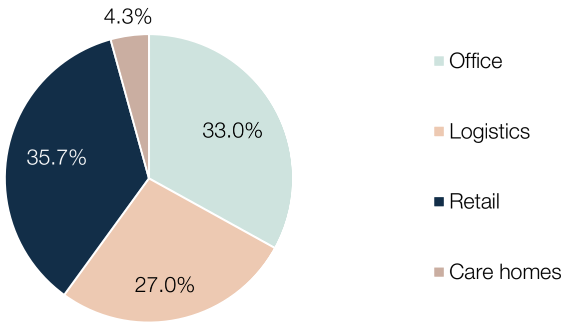
In December 2020, EfTEN's newly established SPV, EfTEN Pirita OÜ, finalised the purchase of a property located at Hunditubaka tee 12 / Karukella tee 5 in Tallinn from OÜ Arca Varahaldus. By the end of 2020, the construction of an aged care home was completed on this property, and it is rented to Pirita Kodu OÜ under a long-term agreement. EfTEN entered a new market segment with this transaction, as this property is the first aged care home in its portfolio. Considering the underlying trends in Estonia's demographic situation and continuous demand for care services, we believe this segment has a solid outlook. The size of the property is 13,270 sqm, while the NLA of the building is 6,045 sqm. The care home, which is called the Pirita Pansionaat, has beds for 250 clients. Pirita Kodu OÜ operates the Pirita Pansionaat, based on a 10-year rental agreement, with an option to extend it for another ten years. The acquisition price of the property was EUR 6.2m, half of which was financed with equity capital of the Fund and remaining with a loan taken by the respective SPV from Swedbank. As the Fund had fully invested the previously raised equity capital, the equity part was injected by the Fund, using the bridge financing facility of EUR 3.1m, arranged by Swedbank. This loan is refinanced with the proceeds from the recent share issue.

In 2020, total investments in new commercial buildings amounted to EUR 33.5m. The increase in rental income from newly acquired investment properties was the main driver behind the higher total revenues in 2020. As at the end of Q1 2021, the Fund had 15 commercial real estate investments with a fair value of EUR 144.8m (Q1 2020: EUR 129.1m) and an acquisition cost of EUR 136.8m (Q1 2020: EUR 117.9m). The portfolio is relatively evenly split between the retail, logistics, and office sectors. The Fund also has strong tenants, with several properties being occupied by only one tenant (five out of the 15 properties have ten or more tenants). Therefore, the Fund has retained a steadily high average level of occupancy, with the total portfolio vacancy rate sitting at only 0.8% as of Q1 2021. At the end of Q1 2021, the breakdown of the portfolio by market segments looks as follows: retail – 35.7%, office – 33.0%, logistics and manufacturing – 27.0%, and aged care homes – 4.3%. The geographical distribution of the Fund is dominated by Lithuania with 56.9%, followed by Estonia with 26.5%, and Latvia with 16.5% of the total.

Investment Properties as of 31st March 2021	Fair Value, EURm	NLA, sqm	Estimated Annual Rental Revenue, EURm	Occupancy, %	Average Length of Rental Agreements	Number of Tenants
DSV Tallinn	13.08	16,014	1.03	100	5.6	1
DSV Riga	8.69	12,149	0.73	100	5.7	1
DSV Vilnius	8.86	11,687	0.71	100	5.6	1
Piepilsetas logistics center, Kekava	8.43	13,327	0.69	99	2.8	5
Total Logistics	**39.05**	**53,177**	**3.16**	**100**	**5.0**	**8**
Saules Miestas shopping centre	32.55	19,881	3.17	98	3.7	126
Hortes gardening centre, Laagri	3.51	3,470	0.27	100	11.2	1
Selver in Laagri	6.48	3,063	0.50	100	7.0	10
Hortes gardening centre, Tallinn	6.02	5,300	0.51	100	13.5	1
ABC Motors Autokeskus, Tallinn	3.12	2,149	0.26	100	7.9	1
Total Retail	**51.68**	**33,863**	**4.71**	**99**	**5.5**	**139**
Ulonu office building, Vilnius	8.85	5,174	0.74	99	3.1	13
Evolution office building, Vilnius	10.64	6,172	0.81	100	3.4	50
L3 office building, Vilnius	9.74	6,151	0.79	94	3.1	32
airBaltic office building, Riga	6.80	6,217	0.50	100	4.9	1
Atea office building, Vilnius	11.79	6,811	0.85	100	3.4	3
Total Office	**47.82**	**30,525**	**3.69**	**97**	**3.5**	**99**
Pirita care home	6.22	6,045	0.44	100	9.7	1
Total care homes	**6.22**	**6,045**	**0.44**	**100**	**9.7**	**1**
Total Portfolio	**144.76**	**123,610**	**11.99**	**99**	**4.8**	**247**

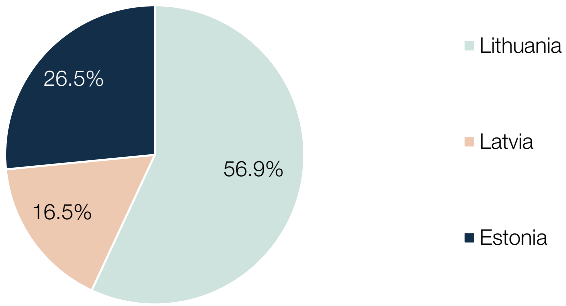
Source: EfTEN

Real estate portfolio value by sector, 31st March 2021



Source: EfTEN

Real estate portfolio value by country, 31st March 2021



Source: EfTEN

Although the indicated new acquisition in the logistics segment in Lithuania is not signed yet and the usage of the remaining new equity is unclear at this stage, in our financial projections, we have assumed that the Fund will acquire c.a. EUR 20m worth of new properties by the end of this year. The total expected investment amount is based on the assumption that the remaining EUR 10m of new equity will be fully invested, using the normalised 50% equity ratio for all investments. The net investment yield of the portfolio stood at 7.6% as of Q1 2021, and, according to the management, the Fund should be able to maintain a similar yield for its new investments. However, we have used a somewhat lower estimate in our projections, assuming the average net initial yield to reach 7.0% for the expected new investments during 2021.

Q1 and Jan-May 2021 Review – Last Year's Acquisitions Driving Growth

EfTEN announced its full Q1 2021 results on 29th April. The reported figures did not differ significantly from the preliminary numbers indicated in their monthly performance announcements published earlier. Despite the deteriorating COVID-19 pandemic during Q1 this year, the Fund reported total revenues at EUR 2.9m, up 17.4% y-o-y, driven primarily by the property acquisitions completed during the last year. The operating profit for the latest quarter amounted to EUR 2.4m, which is 28.9% more than recorded in Q1 2020. The Fund generated net profits of EUR 1.8m in Q1 2021, up 31.2% y-o-y. No property revaluations were booked in the first quarter of 2021, as the Fund's independent real estate appraiser normally reviews valuations semi-annually.

The rental income from newly acquired investment properties has been the main driver behind the increase in total revenues in Q1 2021. In the last quarter, new rental agreements were signed in Ulonu and Laisves office buildings in Lithuania, which decreased the Fund's vacancy rate to just 0.8%. In Q1 2021, the Fund generated free cash flow (defined as EBITDA minus loan repayments and interest expense) of over EUR 1.0m compared to below EUR 0.9m a year earlier. The addition of new properties offset the sluggish performance of the Saules Miestas shopping centre caused by the movement restrictions in Lithuania. According to the Fund, the rental income of Saules Miestas decreased 22% y-o-y in Q1 2021 due to temporary discounts, but the rental income of other properties was not materially affected by the crisis. However, EfTEN points that there are additional agreements in place with some of the tenants to postpone rental payments until May, which may have a negative impact on Fund's cash flows. At the end of Q1 2021, the NAV and EPRA NAV of the Fund stood at EUR 17.35 and EUR 18.48 per share, respectively, both rising 2.5% q-o-q.

According to the Fund's latest monthly performance announcement, at the end of May 2021, the Fund's NAV and EPRA NAV stood at EUR 16.98 and EUR 18.12 per share, respectively, both rising by 0.9% during the latest month, following a decline of 3.0% and 2.8%, respectively, in April due to the announcement of dividends. As a reminder, the Fund pays a dividend of EUR 0.663 per share for 2020, while the ex-date for the dividend was 3rd June 2021. The current market value of EfTEN shares represents a nearly 20% premium to the latest monthly EPRA NAV per share, while the median P/EPRA NAV ratio for our selected peer group for the Fund is approximately 0.95x. We believe that the valuation premium in comparison with the median of the peer group is justified with the solid net initial yield ('NIY') of the Fund at 7.6% (the median for the peer group is c.a. 5%) and its strong tenant quality. EfTEN also indicated that, in January-May 2021, it generated total revenues of EUR 4.9m (+20% y-o-y), EBITDA of 4.1m

EfTEN: Results Review, EURm	Q1/21A	Q1/20A	% y-o-y
Net sales	2.87	2.44	17.4
Gross profit	2.80	2.36	18.9
EBITDA	2.40	2.34	2.5
Operating profit	2.39	1.85	28.9
Net profit	1.80	1.37	31.2
Gross margin, %	97.7	96.4	
EBITDA margin, %	83.8	95.9	
Operating margin, %	83.3	75.8	
Net margin, %	62.6	56.0	

Source: EfTEN, LHV

(+27% y-o-y), and net profits of EUR 3.0m (+26% y-o-y). The addition of new properties during 2020 fully offset the sluggish performance of the Saules Miestas shopping centre in February-March, caused by the restrictions in Lithuania. In April, the Fund's performance was negatively affected by the restrictions in Estonia and temporary rental discounts granted to Hortes horticultural centres, while Saules Miestas was reopened on 19th April, leading to higher rental income from that property. In May, the Fund reached new monthly records in terms of total revenues and EBITDA, amounting to EUR 1.04m and EUR 0.85m, respectively, backed by the gradual ending of the pandemic related rental discounts.

Financial Outlook

In this section of the report, we are discussing the Fund's financial drivers in greater detail, providing an overview of the key elements in its revenues and expenses dynamics, as well as those affecting the Fund's asset volumes, efficiency ratios, and dividends. In order to assess EfTEN's financial performance, we have prepared projections for the Fund's balance sheet, income statement, and cash flows for the 2021-2025 period, based on our assumptions for the key operational and financial indicators. Considering the recent rights issue, our latest projections are prepared on a post-money basis, including the proceeds from the rights issue of EUR 15.1m, and using the new increased number of shares as a basis for per share calculations. In terms of the use of proceeds from the issue, we have established some core assumptions for our financial projections: a) Apart from the portion of proceeds that is already dedicated for the refinancing of existing liabilities, the remainder of the funds shall be used as an equity portion for new property acquisitions totalling to c.a. EUR 20m; b) the new investments shall be made based on the average equity ratio of 50%; c) although the Fund has indicated that the next acquisition in the logistics segment in Lithuania for EUR 10m should be signed in the near future, we have conservatively assumed that all the funds raised from the rights issue shall be fully invested by the end of this year; d) the average gross rental yield of the new investments shall be c.a. 7.5% and the average NIY of c.a. 7.0%; e) the new investments are fully included in our projections from the beginning of 2022. Our yield assumption implies a somewhat lower NIY for the upcoming acquisitions, compared to the current average NIY of 7.6%, but the indicated yield level is still relatively large in comparison with the average portfolio yields of major regional peers.

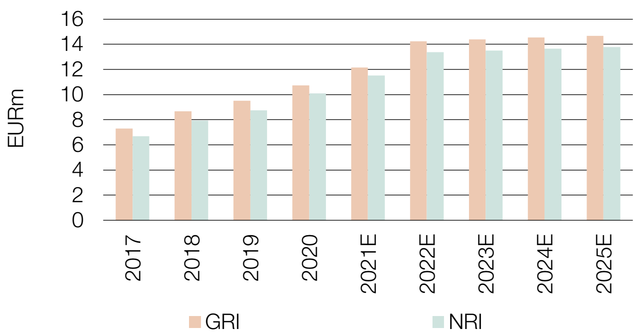
Net Rental Income

EfTEN generates revenues by leasing properties in its real estate portfolio. The revenue forecasts are determined by multiplying the NLA of each property by the estimated occupancy rate and rental price. In Q1 2021, the Fund managed to considerably improve the occupancy level at its Ulonu office building, rising it to 99% from 86% at the end of 2020. At the same time, the occupancy level declined at the L3 office building, staying at 94% at the end of the quarter. Nonetheless, the average vacancy of the whole portfolio further declined during the latest quarter, standing at just 0.8%, and we expect it to remain below 1% throughout our forecast period. At this stage, we assume that the new investments of c.a. EUR 20m shall be directed to the logistics segments, consequently raising the NLA of the portfolio by more than 22 thousand sqm or 18% to reach nearly 146 thousand sqm by the end of 2021. Further, we conservatively estimate that, for 2021, the rental rates remain at the Q4 2020 average level and slowly begin to rise again by 1% per year from 2022. The historical annual growth in gross rental income ('GRI') is correlated with the expanding property portfolio. Considering the expected GRI of the new investments, they would add nearly EUR 1.5m of annual GRI from 2022.

In addition to regular rental income, the Fund collects additional revenues from retail premises, including certain bonuses linked to the financial performance of retail tenants as well as marketing fees covering general promotional events and other marketing activities of the Fund's shopping centres. We are projecting such additional revenues as a percentage of rental income from retail premises, and they are included in the GRI. In 2020, additional revenues formed approximately 17% of the rental income from retail premises, while we projected such revenues to account for c.a. 16% of the portfolio's rental revenues from the retail segment during our forecast period. Net rental income ('NRI') of the Fund is determined by deducting direct operating expenses related to the investment properties, i.e. cost of services sold and marketing costs linked to the properties, from GRI.

In 2020, the aggregated GRI was EUR 10.7m, and with the full-year consolidation of the recently acquired properties, such as the airBaltic office building, the Piepilsetas logistics centre, and the Atea UAB office building, it is estimated to reach EUR 12.2m in 2021. The full utilisation of the rental capacity of the recently acquired Pirita care home property from 2022 further improves GRI. Assuming no further temporary rental discounts at the retail properties, as well as the expected additional rental revenues from the new investments to be completed by the end of this year, the Fund's portfolio is forecast to generate a GRI of c.a. EUR 14.2m in 2022 and 14.4m in 2023. Such developments should translate into a NRI of c.a. EUR 11.5m for 2021, rising significantly to EUR 13.5m by 2023.

Gross and Net Rental Income



Source: EfTEN for historicals, LHV for estimates

Operating Expenses and Other Income

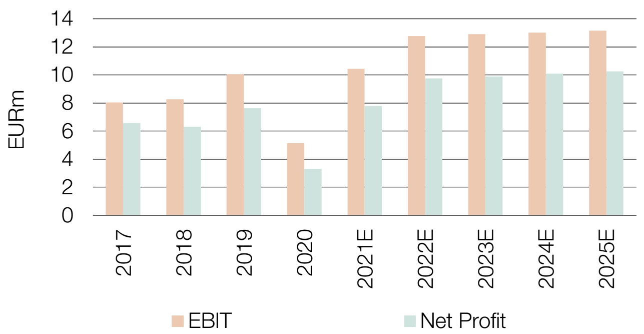
EfTEN's main expenses are general and administrative expenses. It has been assumed that the total annual general and administrative expenses will stabilise, as a percentage of GRI, at the level of 13.5-14.0%, while marketing costs, as a percentage of GRI, could stabilise at slightly above 3%. A majority of the general and administrative expenses are comprised of management fees paid to the Fund's management company, EfTEN Capital AS, amounting to EUR 0.9m in 2020, up 28% y-o-y, driven mostly by the growth of the total assets of the property portfolio. Other substantial elements of the general and administrative expenses are consulting expenses related to the acquisitions and wages of the Fund's staff, mostly including managers of the individual properties. As of 2020, the Fund had a total of 12 employees, who were paid a total of EUR 0.26m last year, including related taxes, down from EUR 0.28m a year earlier. No salaries are paid to the members of the Fund's management board or supervisory board, as they work for EfTEN Capital AS, a company providing management services to EfTEN, and the respective expenses are included in the management fees.

Another key item for EfTEN is gains or losses from the revaluation of investment properties. This has generally been a strong contributor to the Fund's profitability, with gains being recorded continuously during the period of five years until 2019. In 2019, the revaluation gain was c.a. EUR 3.1m, but due to the COVID-19 pandemic, EfTEN recorded a EUR 4.0m revaluation loss at the end of June 2020. Colliers slightly upgraded the total value of investment properties by EUR 0.6m during its latest valuation process in December 2020, partially reversing the substantial downward revaluation recorded in June 2020, mostly reflecting their opinion that the logistics sector has remained stronger than anticipated across the Baltics. Looking ahead, depending on the stabilisation of the pandemic, we assumed that EfTEN would book a modest gain in December 2021 and will continue to record positive revaluation gains in the coming years, though at a significantly lower level compared to the period of 2015-2019, reaching up to EUR 1.4m a year.

Profitability

With expected further expansion of the property portfolio and increasing levels of GRI, along with assumed continued gains from the revaluation of properties, EfTEN's operating profit is projected to improve from EUR 10.0m in 2019 to EUR 10.4m in 2021 and rise considerably to EUR 12.8m in 2022 and EUR 12.9m in 2023. As a reminder, in 2020, the operating profit dropped to only EUR 5.1m on account of the large H1 2020 revaluation loss on the value of the property portfolio. Assuming increasing financial expenses due to expanding total debt driven by the property acquisitions, following a dip to just EUR 3.3m in 2020, the net profit could grow from EUR 7.6m in 2019 to EUR 7.8m in 2021 and EUR 9.8m in 2022. Please note that the significant improvement in the net profit from 2022 is partly related to the anticipated higher revaluation gains. Nonetheless, with all of the assumptions, it also needs to be reminded that EfTEN is currently operating in an uncertain environment due to the COVID-19 pandemic. While we do not perceive EfTEN as being a high-risk investment during the current health crisis, the underlying risk cannot be overlooked. Therefore, this financial outlook assumes a sooner rather than later stabilisation of the pandemic and swift recovery of economic activities in the Baltics.

Profit Development



Source: EfTEN for historicals, LHV for estimates

Financial Debt

With the assumption that EfTEN will acquire c.a. EUR 20m worth of new properties by the end of this year, using the normalised 50% equity ratio for new investments, at the same time refinancing several existing debt liabilities in the amount of over EUR 4m as planned, the total debt amount could rise by c.a. EUR 6m during 2021. At the end of Q1 2021, the Fund had borrowings of c.a. EUR 71.8m, implying a debt-to-equity (D/E) ratio of 0.98x. Assuming the improvement in the Fund's profitability and gradual repayment of debt, it is estimated that the D/E ratio could decline to c.a. 0.7x by the end of 2023. For future portfolio development, it is important that EfTEN maintains strong relationships with the financial institutions and continues to have access to debt facilities. The strength of the relationship with the banks was reinforced during the COVID-19 crisis when EfTEN managed to successfully negotiate with the banks to receive grace periods on the principal repayments to match the relief offered by the Fund to its tenants on their rental payments. As of Q1 2021, the Fund had 71% of loans bearing floating interest rates, with the margins ranging from 1.4% to 4.5% plus Euribor, while the fixed rates for the remaining debt range from 1.55% to 1.9%. Concerning the portion of floating rate debt, nearly 30% of this or EUR 14.8m is hedged with an interest rate swap agreement concluded in 2016, fixing the 3-month Euribor at 0.35% with the maturity in 2023. All current loan contracts of the Fund have a 0% floor for the Euribor, i.e. the negative Euribor does not reduce the risk margins on the floating rate loans. The average effective interest rate on the Fund's debt liabilities stood at 2.3% in Q1 2021, and we anticipate the effective interest to stabilise at c.a. 2.2% going forward.

Valuation Considerations

In valuing the Fund, LHV has maintained its relatively conservative expectations in terms of the property portfolio. Although the Fund is estimated to make at least EUR 20m worth of new investments by the end of this year, we expect it to maintain conservative leverage for the new properties. We assume the rental rates would be kept unchanged in 2021 before gradually rising just 1.0% p.a. from 2022. It is also assumed that, from 2022, the Fund will benefit from modest gains from revaluation of its property portfolio, estimated up to EUR 1.4m a year, driven mostly by rising rental rates and downward pressure on property yields.

The Fund's valuation is based on six metrics, including:

- P/E
- P/Book
- EV/EBIT
- Cash Distribution Yield
- P/EPRA NRV & Net Initial Yield correlation
- Cash Distribution Discount Model

Relative Valuation

In terms of compiling a peer group for the relative valuation, there is only one listed peer in the region similar to EfTEN, i.e., Baltic Horizon Fund (NHCBHFFT). Also, there are a limited number of real estate funds with reliable data available from Central and Eastern Europe. As such, Nordic real estate entities have been included, thereby increasing the peer group to 15 companies that are mostly engaged in managing the office and retail properties. However, please note that all selected peers are larger than EfTEN.

In calculating a peer-implied fair value range, we considered the peers' P/E, P/Book, and EV/EBIT multiples as well as Dividend Yield expectations for 2021, 2022, and 2023. These multiples were applied to our forecasts for net profit, equity, EBIT, net debt, and an annual cash distribution of EfTEN for the respective years. In order to calculate the FVR, we then applied different weights to the implied values for each year. As we might see continued volatility in the peer companies' financials in 2021 due to various discounts in rental rates and potential revaluations of properties related to the ongoing pandemic, we decided to give a 20% weight to 2021 indicative values, leaving 40% each to 2022 and 2023. Considering the fact that most of the peers are substantially larger than EfTEN, with more diversified portfolios and better stock liquidity, while the share prices of the peer companies have experienced great volatility recently, we decided to apply a conservative 20% discount relative to the peer-implied range. As most of the peer companies trade at significantly higher earnings multiples in comparison to EfTEN, the peer comparison resulted in a relatively wide range of implied values per share, especially when comparing P/E and EV/EBIT ratios to P/B and Distribution Yield levels:

- P/Book – EUR 16.4-16.5
- Distribution Yield – EUR 13.7-21.8
- P/E – EUR 27.2-34.2
- EV/EBIT – EUR 34.8-40.5

P/EPRA NRV and NIY Correlation

P/EPRA NRV is one of the standard valuation metrics used by real estate funds and property developers, as defined by the European Public Real Estate Association ('EPRA') according to their latest Best Practice Recommendations ('BPR') for financial disclosures by listed real estate companies, published in October 2019. The BPR introduced three new measures of net asset value ('NAV'): Net Reinvestment Value ('NRV'), Net Tangible Assets ('NTA'), and Net Disposal Value ('NDV'). EPRA NRV basically assumes that real estate entities never sell assets and aims to represent the value required to rebuild the entity. EPRA NTA assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred

Company	Market Cap (EURm)	EV/EBIT (x)			P/E (x)			P/B (x)			Dividend Yield (%)		
		2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
EfTEN Real Estate Fund III	**109**	**17.0**	**13.5**	**13.1**	**14.0**	**11.2**	**11.0**	**1.2**	**1.1**	**1.1**	**3.1**	**4.1**	**4.5**
Baltic Horizon Fund	140	16.6	15.4	15.2	10.8	10.2	10.1	1.0	1.0	0.9	4.4	5.1	5.2
Castellum	6,157	26.1	25.7	24.5	17.7	20.6	19.4	1.2	1.1	1.1	3.2	3.3	3.4
Fabege	4,711	36.5	34.3	32.8	32.7	30.1	28.2	1.1	1.1	1.0	2.6	2.7	2.9
Entra	3,655	28.0	26.4	24.4	27.7	25.8	22.5	1.3	1.3	1.2	2.5	2.6	2.8
Hufvudstaden	3,136	32.1	30.1	29.6	31.4	29.1	28.4	1.1	1.1	1.0	2.1	2.3	2.4
Wihlborgs Fastigheter	3,014	25.2	24.2	23.1	19.0	18.5	17.4	1.5	1.4	1.3	2.7	2.9	3.1
Atrium Ljungberg	2,690	31.6	30.4	28.5	24.0	24.6	23.4	1.1	1.1	1.0	2.5	2.6	2.7
Kungsleden	2,439	25.0	23.7	22.7	16.7	19.1	18.0	1.2	1.1	1.1	2.7	2.8	3.0
Olav Thon Eiendomsselskap	1,904	16.0	15.9	15.7	n.a.	13.1	10.2	0.7	0.6	0.6	4.3	3.5	3.7
Platzer Fastigheter	1,556	28.9	27.2	24.8	20.5	21.9	20.0	1.4	1.3	1.2	1.8	1.9	2.1
Citycon	1,366	21.0	19.5	18.9	13.3	12.7	12.3	0.7	0.7	0.8	6.2	6.1	5.9
Dios Fastigheter	1,297	22.4	20.9	19.9	13.1	14.1	13.3	1.3	1.2	1.1	3.5	3.7	3.8
Norwegian Property	964	27.5	26.2	26.2	19.4	23.0	17.0	0.8	0.8	0.8	2.7	2.7	2.7
NP3 Fastigheter	943	21.1	19.5	18.4	17.6	15.7	14.2	2.0	1.7	1.6	2.2	2.3	2.5
Globe Trade Centre	725	28.9	16.0	12.0	n.a.	11.8	7.6	0.8	0.8	0.8	4.8	6.7	7.5
Median		26.1	24.2	23.1	19.0	19.1	17.4	1.1	1.1	1.0	2.7	2.8	3.0
Average		25.8	23.7	22.4	20.3	19.4	17.5	1.1	1.1	1.0	3.2	3.4	3.6
	Net Debt	EBIT			Net Profit			Book Value			Cash Contribution		
Respective denominator for EfTEN Real Estate Fund III, EURm	(52.1)	10.4	12.8	12.9	7.8	9.8	9.9	91.6	96.9	101.8	2.8	4.5	4.9
Size and liquidity discount	20%												
Indicative value per share		34.8	40.5	38.7	34.2	29.8	27.2	16.4	16.5	16.5	13.7	20.7	21.8
Weight		20%	40%	40%	20%	40%	40%	20%	40%	40%	20%	40%	40%
Implied weighted value per price			**38.7**			**29.6**			**16.5**			**19.7**	

Source: Bloomberg, LHV

tax, while EPRA NDV represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax. We decided to use EPRA NRV as a basis for our peer group net asset ratio comparisons, as EPRA NRV calculation principles look the closest to the calculation of the former classic EPRA NAV. In some cases, if the formal EPRA NRV was not available, we used the published EPRA NAV value for those peers. Based on the Q1 2021 EPRA NRV (EPRA NAV if formal EPRA NRV not available) levels and current market prices for fifteen peers, the peer P/EPRA NRV range varies widely from 0.62x to 1.99x, with a median value of 0.95x.

The level of P/EPRA NRV ratios wary a lot for different companies, depending on several aspects, including the country risks, market segment risks, the level of portfolio diversification, market yield requirements, the portion of properties under development, financing leverage etc. Therefore, we decided to pay attention to a correlation between P/EPRA NRV and Net Initial Yield ('NIY') values for the selected peers. Essentially, NIY is calculated as the annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property. The peer group's portfolio NIY values (or the respective similar investment yield available) wary from 3.7% to 7.8%, with EfTEN presenting NIY at the highest end of the peer group range at 7.6% as of Q1 2021. The data for our peer group indicates a modest positive correlation between P/EPRA NRV and NIY values, although the R^2 correlation coefficient is quite low at only c.a. 0.1x. We calculated the respective correlation implied P/EPRA NRV ratio for the Fund, indicating that EfTEN deserves to trade at a slight premium to its EPRA NRV level, implying the fair value of c.a. EUR 21.1 per share.

Cash Distribution Discount Model

For the Cash Distribution Discount Model ('CDDM'), we have used the estimated financials for the Fund and expected cash distributions from 2022 to 2025, followed by the terminal value calculations. As the Fund's shares are trading ex-dividend paid this year, the value of 2021 dividends is no longer included in our CDDM calculations. On the other hand, our post-money valuation approach includes the expected new investments driven by the equity funding raised from the recent rights issue, also accounting for the increased number of shares. Main assumptions for the Cost of Equity calculations used in our CDDM model, such as the normalised long term risk-free rate, sector betas, and equity risk premium, are sourced from the "2017 Valuation Handbook – International Industry Cost of Capital" published by Duff & Phelps. The country risk premium is based on a ratings-based default spread sourced from the Damodaran database, calculated as a weighted average of the Baltic country premiums according to the portfolio asset breakdown by country. Additionally, there is a company-specific risk premium that we assigned to EfTEN to reflect risks associated with its small size, stock liquidity, and potential COVID-19 risk exposure. On our scale of 1-5, we have given EfTEN a risk score of 3.0. However, compared to our previous company update, we have reduced some of the risk components incorporated in the company-specific risk premium, resulting in a 1.1% decline in the respective premium to 3.9%. Based on these assumptions, the calculated CDDM-based value for EfTEN is c.a. EUR 53m or just EUR 10.5 per share. It should be noted that this method is susceptible to changes in primary assumptions. Additionally, this assumes a conservative rental growth rate and relatively high com-

As of 31st March 2021					
	Currency	Share Price	EPRA NAV per share	P/EPRA NAV per share	Net Initial Yield (%)
Baltic Horizon Fund	EUR	1.17	1.2	0.95	5.0
Castellum	SEK	223.90	220.0	1.02	4.9
Fabege	SEK	143.60	158.0	0.91	3.9
Hufvudstaden	SEK	149.65	182.0	0.82	3.7
Entra	NOK	201.60	194.0	1.04	4.4
Atrium Ljungberg	SEK	203.60	215.8	0.94	4.4
Wihlborgs Fastigheter	SEK	197.70	155.6	1.27	5.1
Citycon	SEK	7.68	11.6	0.66	5.5
Kungsleden	SEK	112.60	105.5	1.07	4.2
Globe Trade Centre	PLN	6.67	10.8	0.62	7.8
Klovern	SEK	17.00	20.8	0.82	5.3
Dios Fastigheter	SEK	97.20	84.4	1.15	5.7
Platzer Fastigheter	SEK	130.80	99.4	1.32	3.9
Norwegian Property	NOK	14.90	21.8	0.68	3.8
NP3 Fastigheter	SEK	175.00	88.1	1.99	6.7
Median				**0.95**	**4.9**
Quartile 1				0.82	4.1
Quartile 3				1.11	5.4
EfTEN	**EUR**		**18.48**		**7.6**
P/EPRA NAV and NIY correlation implied P/NAV for EfTEN				1.14	
Implied value per share				**21.06**	

Source: Bloomberg, LHV

CDDM Assumptions:	
Risk free rate	2.5%
Market risk premium	5.1%
Country risk premium	1.2%
Levered Beta	0.65
Adjusted company risk premium	3.9%
Terminal growth rate	2.5%
Cost of equity	**11.0%**

Source: LHV

CDDM sensitivity to changes in assumptions

Terminal growth rate	CoE 8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
2.2%	15.53	13.24	11.53	10.22	9.17	8.32	7.61
2.3%	15.76	13.40	11.65	10.31	9.24	8.37	7.65
2.4%	16.00	13.57	11.78	10.40	9.31	8.43	7.70
2.5%	16.25	13.74	11.90	10.50	9.39	8.49	7.75
2.6%	16.51	13.92	12.03	10.60	9.47	8.55	7.80
2.7%	16.78	14.10	12.17	10.70	9.54	8.61	7.85
2.8%	17.05	14.30	12.30	10.80	9.62	8.68	7.90

Source: LHV

CDDM Valuation, EURm	2022E	2023E	2024E	2025E	Terminal
Cash distributions	4.5	4.9	4.8	4.9	59.0
PV of Cash distributions	**4.0**	**4.0**	**3.5**	**3.2**	**38.6**
Equity Value					53.2
Shares outstanding					5.07
Value per share					**10.50**

Source: LHV

pany-specific risk adjustments.

Valuation Summary

EfTEN's FVR has been established according to the six metrics (five peer valuation multiples and the dividend discount model) based on the weights summarised in the table. As the peer group companies are much larger than EfTEN and their share prices and financials have witnessed some elevated volatility recently, we decided to prefer the correlation implied P/EPRA NRV and CDDM as more prominent valuation metrics for the Fund, compared to other peer valuation metrics. Thus, we have given P/EPRA NRV a 40% weight (up from 30% in our previous valuation update) and the CDDM a 20% weight in the total value, leaving the total contribution of other metrics at 40%, including a 10% weight each for P/BV, Dividend Yield, P/E, and EV/EBIT multiples. The weights of P/BV and Dividend Yield metrics have been reduced to 10% from 15% in our previous report. Overall, based on our current projections for EfTEN and other assumptions, we decided to upgrade our FVR from EUR 19.30-20.30 to EUR 20.30-21.70 per share. Please note that our new FVR range represents post-money ex-dividend valuation for the stock (i.e. including the funds and expected investments connected to the rights issue, but excluding the 2021 dividend). The latest public share offering was arranged at a notable discount to the prevailing market level, therefore causing a small dilutive effect to the valuation per share, further magnified by the fact that the expected new investments could be valued at a lower average NIY compared to the existing portfolio. However, these dilutive factors were offset by the higher implied P/EPRA NRV ratio for the Fund derived from the peer group data, generally higher peer valuations, the lower Cost of Equity, and closer proximity of stronger post-COVID cash flows. Major risk factors to our valuation are related to the aftermath of the COVID-19 pandemic, including a potential third wave, which may cause a slower than predicted recovery of the economic conditions in the Baltics, pressuring occupancy and rental rates. While the Baltic economies suffered much less during the pandemic compared to Western Europe, setting good preconditions for a smooth recovery, uncertainty remains high, and some extra caution should be warranted.

Weighted Value Per Share, EUR	Method's weighted value	Weights	Contribution to value
Method			
CDDM	10.50	20.0%	2.10
P/EPRA NRV & NIY	21.06	40.0%	8.42
P/Book	16.51	10.0%	1.65
Div Yield	19.74	10.0%	1.97
P/E	29.64	10.0%	2.96
EV/EBIT	38.65	10.0%	3.87
Total weighted value per share			**20.98**

Source: LHV

Financial Tables

Income Statement, EURm	2017	2018	2019	2020	2021E	2022E	2023E
Total revenue	7.3	8.7	9.5	10.7	12.2	14.2	14.4
Cost of services sold	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Gross Profit	**7.1**	**8.4**	**9.2**	**10.4**	**11.8**	**13.8**	**14.0**
Marketing costs	(0.4)	(0.4)	(0.4)	(0.3)	(0.3)	(0.5)	(0.5)
General and administrative expenses	(1.6)	(1.2)	(1.8)	(1.6)	(1.7)	(1.9)	(2.0)
Gain/loss from revaluation of investment properties	2.9	1.6	3.1	(3.4)	0.6	1.3	1.4
Other operating income and expenses	0.0	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.0)
EBIT	**8.0**	**8.3**	**10.0**	**5.1**	**10.4**	**12.8**	**12.9**
Interest income	-	-	0.0	-	-	-	-
Finance expenses	(0.7)	(1.1)	(1.2)	(1.3)	(1.6)	(1.6)	(1.6)
Pre-tax profit	**7.3**	**7.2**	**8.9**	**3.8**	**8.8**	**11.1**	**11.3**
Income tax	(0.8)	(0.9)	(1.2)	(0.5)	(1.0)	(1.4)	(1.5)
Net profit/(loss)	**6.6**	**6.3**	**7.6**	**3.3**	**7.8**	**9.8**	**9.9**
Minority Interest	-	-	-	-	-	-	-
Net profit/(loss) attributable to shareholders	**6.6**	**6.3**	**7.6**	**3.3**	**7.8**	**9.8**	**9.9**

Source: EfTEN for historicals, LHV for estimates

Balance Sheet, EURm	2017	2018	2019	2020	2021E	2022E	2023E
Assets							
Cash and Equivalents	8.1	4.9	13.0	5.1	8.2	10.1	10.5
Short-term deposits	-	-	6.0	-	-	-	-
Accounts receivable	0.6	0.7	0.7	2.0	1.0	1.2	1.2
Prepaid expenses	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Total Current Assets	**8.8**	**5.6**	**19.7**	**7.3**	**9.3**	**11.3**	**11.8**
Long-term receivables	0.0	0.0	-	0.0	0.0	0.0	0.0
Investment property	88.4	102.8	113.0	144.2	166.1	167.4	168.8
Fixed assets	0.0	0.1	0.1	0.1	0.1	0.1	0.2
Intangible assets	0.0	-	-	0.0	0.0	0.0	0.0
Total Non-Current Assets	**88.5**	**102.9**	**113.1**	**144.4**	**166.2**	**167.6**	**169.0**
Total Assets	**97.3**	**108.5**	**132.8**	**151.6**	**175.5**	**178.9**	**180.7**
Liabilities							
Borrowings - ST portion	2.1	8.1	21.1	28.8	24.9	24.9	24.9
Derivative instruments	0.1	0.2	0.3	0.2	0.3	0.4	0.4
Payables and prepayments	1.8	1.0	1.1	2.0	1.3	1.4	1.4
Total Current Liabilities	**4.0**	**9.3**	**22.6**	**31.0**	**26.4**	**26.6**	**26.7**
Borrowings	43.7	44.7	34.2	43.6	51.8	49.0	45.8
Other LT liabilities	0.4	0.5	0.6	1.0	0.9	1.1	1.1
Deferred income tax liabilities	2.9	3.5	4.3	4.6	4.7	5.3	5.3
Total Non-Current Liabilities	**46.9**	**48.7**	**39.1**	**49.1**	**57.4**	**55.4**	**52.2**
Total Liabilities	**50.9**	**58.0**	**61.7**	**80.1**	**83.9**	**82.0**	**78.9**
Equity							
Share capital	32.2	32.2	42.2	42.2	50.7	50.7	50.7
Share premium	3.7	3.7	9.7	9.7	16.3	16.3	16.3
Statutory reserve capital	0.3	0.6	0.9	1.3	1.5	1.9	2.4
Retained earnings	10.2	14.0	18.4	18.3	23.1	28.0	32.5

Balance Sheet, EURm...continued	2017	2018	2019	2020	2021E	2022E	2023E
Total Equity	**46.4**	**50.5**	**71.2**	**71.5**	**91.6**	**96.9**	**101.8**
Total Equity and Liabilities	**97.3**	**108.5**	**132.8**	**151.6**	**175.5**	**178.9**	**180.7**

Source: EfTEN for historicals, LHV for estimates

Cashflow Statement	2017	2018	2019	2020E	2021E	2022E	2023E
Operating cash flow							
Net Profit	**6.6**	**6.3**	**7.7**	**3.3**	**7.8**	**9.8**	**9.9**
Financial income	-	-	(0.0)	-	-	-	-
Interest paid	0.8	1.1	1.2	1.3	1.6	1.6	1.6
Other financial costs	(0.1)	-	-	-	-	-	-
Gain/loss from revaluation of investment property	(2.9)	(1.6)	(3.1)	3.4	(0.6)	(1.3)	(1.4)
Gain from selling investment properties	(0.0)	(0.0)	(0.0)	0.0	-	-	-
Change in the success fee liability	0.5	-	-	-	-	-	-
Depreciation and amortisation	0.0	0.0	0.1	0.1	0.1	0.0	0.1
Income tax expense	0.8	0.9	1.1	0.5	1.0	1.4	1.5
Cash flow from operations before changes in working capital	**5.6**	**6.7**	**7.0**	**8.6**	**9.9**	**11.5**	**11.6**
Change in working capital	(1.5)	(0.1)	0.3	(0.5)	0.3	0.0	0.0
Cash Flow from Operating Activities	**4.1**	**6.6**	**7.3**	**8.0**	**10.2**	**11.5**	**11.6**
Cash Flow from Investing Activities							
Purchase of property, plant and equipment	(0.0)	(0.1)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)
Sale/(Purchase) of investment property	(9.8)	(13.5)	(7.3)	(18.8)	(21.3)	(0.0)	(0.0)
Acquisition of subsidiaries	(1.1)	(0.1)	-	(8.6)	-	-	-
Short-term deposits	-	-	(6.0)	6.0	-	-	-
Interest received	-	-	-	0.0	-	-	-
Cash Flow from Investing Activities	**(11.0)**	**(13.7)**	**(13.4)**	**(21.4)**	**(21.3)**	**(0.1)**	**(0.1)**
Financing cash flow							
Loans received/repaid, net	3.1	7.1	2.5	9.9	4.3	(2.8)	(3.2)
Interest paid	(0.8)	(1.0)	(1.1)	(1.4)	(1.6)	(1.6)	(1.6)
Proceeds from issuance of shares	11.0	-	16.0	-	15.1	-	-
Income tax paid on dividends	(0.0)	(0.1)	(0.1)	(0.3)	(0.9)	(1.4)	(1.5)
Dividends paid	(1.5)	(2.2)	(3.1)	(2.7)	(2.8)	(4.5)	(4.9)
Change in other LT liabilities	-	-	-	-	0.0	0.8	0.1
Cash Flow from Financing Activities	**11.8**	**3.8**	**14.2**	**5.6**	**14.1**	**(9.5)**	**(11.1)**
Cash and equivalents at beginning of the period	**3.2**	**8.1**	**4.9**	**13.0**	**5.1**	**8.2**	**10.1**
Total periods cash flow	4.9	(3.3)	8.1	(7.9)	3.0	1.9	0.5
Cash and cash equivalents at end of the period	**8.1**	**4.9**	**13.0**	**5.1**	**8.2**	**10.1**	**10.5**

Source: EfTEN for historicals, LHV for estimates

Key Ratios	2017	2018	2019	2020	2021E	2022E	2023E
Growth							
Revenue (%)	36.9	18.8	9.7	12.8	13.3	17.2	1.0
Gross Profit (%)	38.4	17.1	9.9	13.3	13.7	17.0	1.0
EBITDA (%)	43.2	19.4	11.2	14.6	15.7	15.9	1.0
EBIT (%)	38.8	2.8	21.6	(48.9)	103.7	22.3	1.0
Pre-tax Profit (%)	43.2	(2.5)	23.7	(57.0)	131.8	26.4	1.7
Net Profit (%)	51.2	(4.2)	20.9	(56.5)	135.1	25.1	1.3
EPS (%)	14.4	(18.2)	3.0	(61.0)	95.7	25.1	1.3
Profitability							
Gross margin (%)	97.7	96.3	96.5	97.0	97.3	97.2	97.2
EBITDA margin (%)	77.0	77.4	78.5	79.7	81.4	80.6	80.6
EBIT margin (%)	110.0	95.2	105.6	47.8	85.9	89.7	89.7
PBT margin (%)	100.6	82.6	93.2	35.5	72.6	78.3	78.8
Net Profit margin (%)	90.1	72.6	80.1	30.9	64.1	68.5	68.7
Return							
ROCE (%)	9.7	8.4	8.7	3.8	6.7	7.5	7.5
ROE (%)	17.1	13.0	12.5	4.7	9.6	10.3	9.9
ROA (%)	7.5	6.1	6.3	2.3	4.8	5.5	5.5
Liquidity							
Current ratio (x)	2.2	0.6	0.9	0.2	0.4	0.4	0.4
Quick ratio (x)	2.2	0.6	0.6	0.2	0.3	0.4	0.4
Leverage							
Net Debt (EURm)	37.6	48.0	42.4	67.2	68.5	63.8	60.2
Net gearing (x)	0.8	1.0	0.6	0.9	0.7	0.7	0.6
Debt/Equity ratio (x)	1.0	1.0	0.8	1.0	0.8	0.8	0.7

Source: EfTEN for historicals, LHV for estimates

Key Definitions/Formulas	
ROE	Net profit divided by average equity book value
ROCE	EBIT divided by average capital employed
ROA	Net profit divided by average total assets
EPS	Net profit attributable to shareholders divided by weighted average number of shares
BVPS	Equity book value divided by year end number of shares
Net debt	Total financial debt less cash and cash equivalents
P/E	Corresponding share price divided by earnings per share
P/BVPS	Corresponding share price divided by book value per share
EV/Sales*	Enterprise value divided by sales
EV/EBITDA*	Enterprise value divided by EBITDA
EV/EBIT*	Enterprise value divided by EBIT
Net gearing	Net financial debt divided by total equity
Debt/Equity	Total financial debt divided by total equity
Enterprise value	Market Capitalisation plus total debt plus minority interest plus preferred equity at market value plus un-funded pension liabilities and other debt-deemed provisions minus value of associate companies minus cash and cash equivalents.
Market Capitalisation	Number of outstanding shares at the end of the period multiplied by share price.

Source: LHV

* To calculate EV for forward multiples we used the market capitalisation as of 10th June 2021 while used the latest reported data (31st March 2021) for net debt, investment in associates, and minority interest.

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