EfTEN Real Estate Fund III AS (EFT1T ET)

Company Update

26th Aug 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. Following the recent successful EUR 15m rights issue, the Fund continues to expand its property portfolio this year, completing the latest acquisition in June, with additional investments anticipated later this year. As at the end of Q2 2021, the Fund had 16 commercial real estate properties with a fair value of EUR 157.2m and an acquisition cost of EUR 144.2m, while the total vacancy rate was only 0.7%. The net investment yield of the portfolio stood at 7.4% as of Q2 2021, which is considered a strong level in the Baltic context and current market environment.

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 and the CDDM a 20% weight in the total value, leaving the total contribution of other metrics at 40%, including a 10% weight for each multiple. Please note that our valuation of the Fund is largely dependent on the peer comparison analysis of different market multiples and, as such, has been significantly influenced by the recent rapid growth in the stock prices of publicly-traded real estate funds in comparison with our previous quarterly update on EfTEN. Over the last three months, the stock prices of the selected peer companies have increased nearly 20% on average. Overall, we decided to upgrade our FVR further from EUR 20.30-21.70 to EUR 22.00-23.40 per share. In sum, our valuation approach

Key Numbers (EURm)	2018	2019	2020	2021E*	2022E*	2023E*
Sales (EURm)	8.7	9.5	10.7	12.6	14.2	14.4
Sales growth (%)	18.8	9.7	12.8	17.8	12.5	1.0
Net profit (EURm)	6.3	7.6	3.3	9.9	9.3	9.5
EPS (EUR)	1.95	2.01	0.79	1.95	1.83	1.87
P/E (x)	8.3	8.9	28.3	11.4	12.1	11.9
Payout per share (EUR)#	0.68	0.95	0.65	0.66	0.94	0.94
Payout yield (%)	4.2	5.3	2.9	3.0	4.2	4.2
P/B (x)	1.0	1.1	1.3	1.2	1.1	1.1
EV/Sales (x)	11.6	12.4	15.0	12.7	11.3	11.2
EV/EBITDA (x)	14.9	15.8	18.8	15.7	14.1	13.9
EV/EBIT (x)	12.1	11.7	31.4	12.5	12.7	12.5
ROE (%)	13.0	12.5	4.7	12.0	9.7	9.4

Source: EFT1T, LHV *2021E-2023E multiples are based on the share price 20th Aug 2021) of EUR 22.20 per share # Payout per share include dividends and share capital reduction.

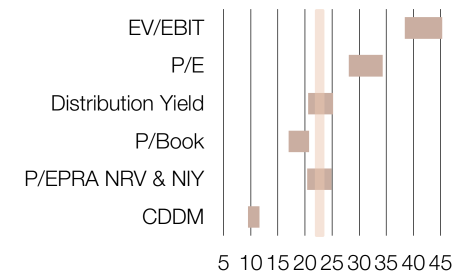
Company Profile	
Listing Market:	Baltic Main List
Bloomberg Ticker:	EFT1T ET
ISIN:	EE3100127242
Industry (Bloomberg):	Financials
Sector (Bloomberg):	Financial Services
Website:	www.eref.ee

Share Data, as of 20th Aug 2021	
Current Share Price (EUR):	22.20
Fair Value Range (FVR), EUR:	22.00-23.40
Upside, % (to mid-point of FVR):	2.25
52-week High/Low (EUR):	22.50/16.70
3m Avg. Daily Volume (th):	1.17
Market Cap (EURm):	112.61
Ordinary Shares (m):	5.07

Key Shareholders, as of 20th Aug 2021	
Altius Capital OÜ	14.26%
OÜ Hoiukonto	10.19%
Järve Kaubanduskeskus Osaühing	9.84%

12-Month Price Performance

LHV Fair Value Range: EUR 22.00-23.40*



* As of 26th Aug 2021

indicates that, based on its solid NIY, conservative asset valuations, and strong tenant quality, EfTEN deserves to trade at a solid premium of 17-24% to its EPRA NRV. 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.

Real Estate Investment Market

According to the latest quarterly property market snapshot published by Colliers International (hereinafter referred to as 'Colliers'), the total volume of the Baltic real estate investment market clearly picked up in Q2 2021 in comparison with the sluggish activity recorded in Q2 2020, which was impacted substantially by the first wave of the COVID-19 pandemic, related movement restrictions, and low investor confidence. In Q2 2021, the total investment volume amounted to c.a. EUR 340m, rising nearly 2.5x y-o-y and bringing the total H1 2021 amount to c.a. EUR 640m, up around 40% y-o-y. The quarterly investment market expanded in all three Baltic countries, with Latvia leading the way, recording nearly four-fold growth in the total volume of real estate investment deals compared to Q2 2020, while the respective amounts more than doubled y-o-y in Estonia and Lithuania. In Estonia, the total known investment volume amounted to c.a. EUR 100m in Q2 2021, rising about 2.1x y-o-y, mostly driven by transactions in the industrial and office segments. East Capital is securing its market position as the largest owner of industrial assets in Estonia, purchasing the VIA 3L logistics centre in Rae parish. Regarding the Estonian office segment, the latest deals include the acquisition of Pharma Plaza medical centre by Summus Capital and the purchase of Kadaka tee 63 office building by US Real Estate OÜ from EfTEN Capital. The retail segment has remained rather quiet so far this year, but two landmark properties were put on sale in the second quarter – T1 Mall of Tallinn and Stockmann department store. As said, the Latvian investment market witnessed a considerable increase in investment activity, the total volume reaching EUR 95m in the latest quarter, up c.a. 3.8x y-o-y, bringing the total for the first half of 2021 to EUR 170m, doubling the respective amount in H1 2020. About one-third of the quarterly transaction volume came from three hotel deals, as Norvelita acquired the Mercure Hotel, Kapital acquired the Europa Royale Riga, and Rigensis bought the Irina Hotel. Other larger deals included the purchase of the Zala 1 office building by Eastnine from Vastint and the sale of the Valdeka shopping centre in Jelgava by Lords. In Lithuania, the investment activity remained broadly steady q-o-q, but the total volume posted c.a. 2.3x y-o-y growth on an annual basis, exceeding EUR 150m in the last quarter, bringing the total half-year amount to c.a. EUR 320m, also more than double y-o-y. While in Q1 this year, most of the transaction volume happened in the retail segment, the Q2 activity comprised many industrial properties, followed by office and residential assets. Among notable deals in the industrial segment was the acquisition of Titnago Logistics Park by East Capital, Adax and AQ Wiring Systems industrial buildings by EfTEN, and Klaipeda Business Park by Baltic Sea Properties. The residential segment saw the block sale of 76 apartments in Vilnius for over EUR 20m, while the office segment deals included the acquisition of Uniq business centre by Eastnine. In terms of the prime yields, the last quarter saw a continued compression in industrial segment yields across the Baltics, with prime office yields also declining in Estonia and Latvia. 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. 140,000 sqm (16 projects) under construction as of June 2021. Q2 2021 saw the completion of the Ajamaja office building in Rotermann Quarter. As a reminder, in Q1 2021, construction works on two sizeable new projects with a total GLA of over 46,000 sqm were started 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 be completed in 2024, while Kawe also started works on the new Kawe City office building. Recently started notable projects include the Vektor office-residential development in Pärnu Road as well as Maakri Hub and Volta 1 redevelopment projects. Average vacancy remains broadly steady at around 8-9% in terms of Class A and B1 buildings, but the Class B2 segment sees some upward vacancy trend and downward pressure on rents. In Riga, the pandemic has been increasing hidden vacancy, as many office workers are still operating remotely. In addition to the three larger projects already under construction, including Verde, Preses Nams, and Novira Plaza, the last quarter saw the start of construction works on the Zeiss office building. A total of c.a. 89,000 sqm of mostly Class A office space remains under construction in Riga currently. Although there is a decent interest from potential tenants, larger companies are currently redefining their workplace needs and should set their new strategies in the latter part of this year. While most landlords are trying to maintain pre-pandemic asking rental rate levels, they are normally more flexible in terms of adjustments of occupied space and providing higher fit-out contributions. In Vilnius, the office market started the year in an active manner, maintaining stability in terms of new supply. Following the start of construction works on two office buildings in the Naujamiestis districts in Q2 2021, the development pipeline increased from c.a. 197,000 sqm as of Q1 2021 to around 209,000 sqm at the end of the last quarter, with over ten new office projects under construction. The three largest properties form close to half of the pipeline. Demand for office space has picked up in Vilnius due to improving business sentiment, with office rents and vacancy levels remaining broadly stable.

Retail Segment

The beginning of the year saw a downward trend in the Baltic retail real estate market, especially in the consumer discretionary market. Nonetheless, in Tallinn area, several new developments started this year, with construction works on the new Tabasalu Centre launched in Q2. On the neighbouring plot to Estonia's first full-size IKEA store of 28,700 sqm in Kurna village near Tallinn, the development of a new retail park of 20,000 sqm is planned, further boosting the activity in that region. T1 Mall of Tallinn, the latest large-scale retail development in Tallinn, filed for bankruptcy recently. The property's largest creditor, Lintgen, looks to be interested in purchasing it from the auction. The grocery sub-segment has remained very active, with Maxima, Prisma, Selver, and Rimi all planning new developments across Tallinn, though the completion times are scheduled for 2022. Lidl also announced the opening of its first store in Estonia this year. The Riga retail market continued to struggle with the recent long period of lockdown measures, which led to increasing shopping centres vacancy levels, exceeding 8% as of Q2 2021. There is interest from new brands to enter the market, but they are mostly waiting for the pandemic to end before making any specific plans. Asking rental rates are currently lower than 2-3 years ago, with a growing tendency of putting greater emphasis on turnover-based rents. Understandably, potential tenants are very careful regarding the force-majeure and break option clauses to mitigate potential risks. In terms of the Vilnius retail market, it remained broadly stable in Q2 2021, while retailers demonstrated adaptability to the changes in the environment. The last quarter saw the start of reconstruction works at the Europa shopping centre. The new construction pipeline in Vilnius includes three major projects, which are forecast to add 73,900 sqm of new retail space by the end of 2022. Since not all stores were reopened after the removal of pandemic-related business restrictions, vacancy in prime shopping centres slightly increased during the last quarter, though it still remained relatively low at c.a. 2.5%, compared to c.a. 4% in Tallinn and over 8% in Riga.

Industrial Segment

The logistics and industrial segment has remained quite resilient. Generally, due to the growth in e-commerce, 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 139,000 sqm as of June 2021, up from 114,000 sqm as of Q1 2021, following the start of construction works on the new pharmacy factory (19,300 sqm) in Tallinn, Suur-Sõjamäe industrial park, and development of the new Ringtee industrial part in Kurna village area next to the Tallinn ring road. The industrial segment pipeline mostly includes stock-offices and mini-warehouses, with the demand for new space being driven by logistics operators and retailers. At least 11 new projects for a total GLA of over 33,000 sqm of new stock office spaces remain under construction. In Q2 2021, major completed development projects include HKScan (8,880 sqm) and Pakendikeskus (10,500 sqm) logistics centres. As a result of solid demand, rental levels remained unchanged in the Tallinn area, with average vacancy declining from 4.3% to 3.8% during the last quarter. In Riga, the industrial segment has been recently driven by the logistics sector. In Q2 2021, two new industrial properties were completed, including the first part of Rumbula Logistics Park stage II (15,000 sqm) and DHL Riga Airport logistics centre, while nearly 90,000 sqm of new space remains under construction. Due to a good balance between rental rates, size, and technical characteristics, larger tenants are again considering properties within the Riga ring road area, which should help to keep vacancy stable when new developments enter the market. In Vilnius, the development pipeline in the segment remains active, comprising seven new projects with a total area of nearly 90,000 sqm under construction. On the other hand, demand for warehouse space intensified in the last quarter, with the total take-up reaching over 30,000 sqm, mostly driven by distribution, logistics, and production companies. High demand reflected in declining vacancy rates in Vilnius, falling close to zero (0.2%) as of Q2 2021 compared to 1.8% at the end of Q1 2021, being also well below the latest levels recorded in Tallinn (3.8%) and Riga (4.6%).

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.

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, nearly two-thirds of proceeds from the offering are already exploited for the financing of different properties, while the Fund is constantly negotiating potential new investments and expects to put the remainder of the proceeds into work soon. EUR 3.1m of the proceeds was directed for the refinancing of the bridge loan facility from Swedbank, used for the acquisition of the Pirita Pansionaat property in December 2020. Also, the Fund used c.a. EUR 0.9m 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 goes to financing the construction of an additional restaurant building on the Saules Miestas shopping centre property in Lithuania. Another EUR 4m of the additional equity raised from the issue was used as an equity part for the Fund's latest acquisition of two industrial buildings in Panevezys, Lithuania, for EUR 10m. The details of this acquisition are discussed in the next section of this report. Considering all disclosed investments, the Fund should still have c.a. EUR 6m of additional equity funding from the issue that can be used for future investments, but for which there are no specific investment targets announced yet.

Prime Yields by segment	Estonia		Latvia		Lithuania	
	Q4/20	Q2/21	Q4/20	Q2/21	Q4/20	Q2/21
Office	6.1%	5.9%	6.0%	5.8%	5.5%	5.5%
Retail	6.5%	6.5%	7.0%	7.0%	7.0%	7.0%
Industrial	7.3%	7.0%	7.5%	7.0%	7.5%	7.0%

Source: Colliers

Recent rights issue drives portfolio expansion

The recent successful rights issue attracted a decent amount of additional equity and contributes to the continuous expansion of the Fund's portfolio. As a reminder, 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 […]

Portfolio update – a new logistics property added in Q2 2021

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 the equity, as a result of which the entire balance left from the Fund's 2019 rights issue of EUR 16m had 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 has been refinanced using the proceeds from the recent share issue.

On 15th June 2021, EfTEN completed its latest acquisition, buying two industrial buildings in Panevezys, Lithuania, for EUR 10m (excluding VAT) at an initial unleveraged yield of 8.0%, which we consider as a strong level in the current market environment. The Fund invested c.a. EUR 4m of equity into the Panevezys industrial buildings, with EUR 6m being financed by Siauliu Bankas. The buildings are constructed in 2007–2008 and have over 20,000 sqm of GLA, while they are leased by AQ Wiring, an electrical systems manufacturer, and UAB ADAX. The buildings are located right next to Via Baltica, within the limits of Panevežys, and they have convenient access both for the employees and for the transportation of goods, being suitable for most light production or assembly type of business

Investment Properties as of 30th June 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	1.02	100	5.4	1
DSV Riga	8.68	12,149	0.72	100	5.4	1
DSV Vilnius	9.11	11,687	0.71	100	5.3	1
Piepilsetas logistics center, Kekava	8.50	13,327	0.64	99	2.6	6
Panevežys logistics center, Panevėžys	10.01	20,125	0.80	100	5.5	2
Total Logistics	**49.38**	**73,302**	**3.89**	**100**	**5.0**	**11**
Saules Miestas shopping centre	33.69	19,881	3.10	98	4.8	134
Hortes gardening centre, Laagri	3.55	3,470	0.27	100	10.9	1
Selver in Laagri	6.91	3,063	0.50	100	6.5	10
Hortes gardening centre, Tallinn	6.21	5,300	0.51	100	13.3	1
ABC Motors Autokeskus, Tallinn	3.14	2,149	0.26	100	7.6	1
Total Retail	**53.50**	**33,863**	**4.63**	**99**	**6.4**	**147**
Ulonu office building, Vilnius	8.86	5,174	0.75	99	2.9	14
Evolution office building, Vilnius	10.62	6,172	0.79	100	3.2	50
L3 office building, Vilnius	10.00	6,150	0.74	94	3.6	32
airBaltic office building, Riga	6.80	6,217	0.50	100	4.7	1
Atea office building, Vilnius	11.80	6,812	0.85	100	3.1	3
Total Office	**48.08**	**30,525**	**3.63**	**99**	**3.4**	**100**
Pirita care home	6.20	6,045	0.44	100	9.5	1
Total care homes	**6.20**	**6,045**	**0.44**	**100**	**9.5**	**1**
Total Portfolio	**157.16**	**143,735**	**12.59**	**99**	**5.1**	**259**

Source: EfTEN

activities. According to the general plan of Panevežys, the territory around the property is planned as an industrial and warehousing zone. ADAX UAB manufactures household and commercial electric heating products. This company started to move all its production to Panevežys in 2002 and has owned and developed one of the buildings since then. According to the Fund, from summer 2022, ADAX UAB will be the sole tenant of the properties, and the new lease term is 16 years from the moment of the acquisition.

In 2020, total investments in new commercial buildings amounted to EUR 33.5m. During the first half of 2021, the Fund invested a total of EUR 10.9m into the property portfolio, including EUR 0.6m as capitalised improvements of existing properties. The increase in rental income from newly acquired investment properties has been the main driver behind the growing total revenues in 2020 and H1 2021. As at the end of Q2 2021, the Fund had 16 commercial real estate investments with a fair value of EUR 157.2m (FY 2020: EUR 144.2m) and an acquisition cost of EUR 147.1m (FY 2020: EUR 136.3m). The portfolio is quite 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 16 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 0.7% as of Q2 2021, further down from 0.8% at the end of Q1 2021. As of Q2 2021, the breakdown of the portfolio by market segments looks as follows: retail – 34.0%, office – 30.6%, logistics and manufacturing – 31.4%, and aged care homes – 3.9%. The geographical distribution of the Fund is currently dominated by Lithuania with 59.9%, followed by Estonia with 24.9%, and Latvia with 15.3% of the total portfolio.

Although the usage of the remaining new equity of c.a. EUR 6m from the latest rights issue is unclear at this stage, in our financial projections, we have assumed that the Fund will acquire c.a. EUR 12m worth of new properties by the end of this year. The total expected investment amount assumes that the remaining new equity will be fully invested, using the normalised 50% equity ratio for all investments. The net investment yield of the portfolio stood at 7.4% as of Q2 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 of 7.0% for the expected new investments.

Q2 and July 2021 Review – Solid numbers backed by upgraded property valuations

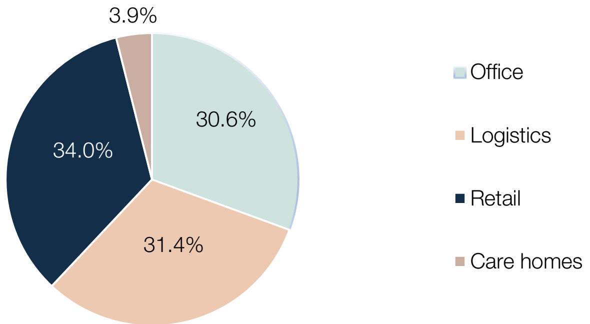
EfTEN announced its full Q2 2021 results on 29th July. The reported figures did not differ significantly from the preliminary numbers indicated in their monthly performance announcements published earlier. The quarterly numbers presented a decent y-o-y improvement in its underlying revenues and profits from its rental activities, driven mostly by the recent acquisitions. The Fund has maintained a low vacancy rate and completed the latest acquisition of an industrial property in Lithuania in June. Further, the Fund's independent real estate appraiser, Colliers International, upgraded the total value of investment properties during its regular semi-annual valuation process, leading to an additional reversal of the property write-downs recorded in June 2020. The latest revaluation of the properties boosted the net profit figures for June and Q2 2021, while we did not account for any potential revaluations in our Q2 earnings previews.

In June 2021, the Fund generated total revenues of nearly EUR 1.1m, up 5.5% m-o-m, including 15-day rental income from the latest acquisition as well as improved revenues from the Saules Miestas shopping centre due to movement restrictions lifting, though the revenues from Saules Miestas were still 4% below the normal levels. The strong June revenues brought the total quarterly income to EUR 3.1m, up 27.5% y-o-y and 7.7% q-o-q, falling in the middle of our estimated range of EUR 3.0-3.2m. The quarterly EBITDA advanced 25.9% y-o-y and 3.2% q-o-q to c.a. EUR 2.5m. As said, Colliers International performed its regular valuation of the properties in June, as a result of which the total value of the Fund's portfolio was increased by 1.4% or EUR 2.0m, lifting the monthly net profit to over EUR 2.4m for June and to nearly EUR 3.7m for Q2 2021. As a reminder, the portfolio was written down by EUR 4m in June 2020 due to the pandemic related negative implications on the rental yields and occupancy levels. As a result, the Fund booked a quarterly net loss of EUR 2.2m in Q2 2020. According to the Fund, the latest changes in the portfolio value mostly reflect improved cash flow expectations for the Saules Miestas shopping centre and the Ulonu office building, while also the values of some other properties were increased due to lower estimated exit yields. As at the end of June 2021, the vacancy rate of the Fund's portfolio was only 0.7%. The Q2 2021 profitability was slightly reduced by the transaction costs of the latest acquisition and expenses related to the recent EUR 15.1m rights issue.

In June 2021, the NAV increased 3.6% m-o-m to reach EUR 17.60 per share, with the EPRA NAV rising 2.6% m-o-m to EUR 18.60 per share. The consolidated assets of the Fund amounted to EUR 169.4m as at the end of Q2 2021, up from EUR 151.6m at the end of 2020, while total equity stood at EUR 89.3m compared to EUR 71.5m as of 2020. In June, the Fund repaid the parent company's bank loan in the amount of EUR 3.1m taken for the acquisition of Pirita Pansionaat completed in December last year. In addition, EfTEN partly used the funds from the rights issue to repay the EfTEN Riga Airport SIA bank loan of EUR 0.9m to comply with the loan covenants and invested c.a. EUR 4m of equity into the Panevezys industrial buildings, with EUR 6m being financed by Siauliu Bankas.

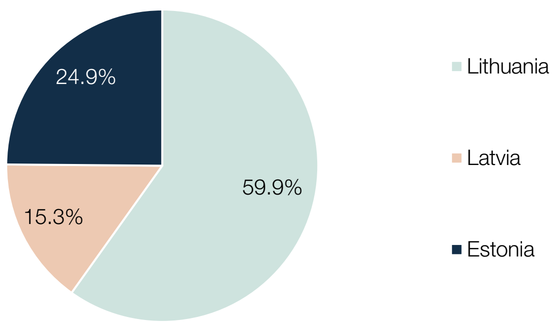
According to the Fund's latest monthly performance announcement,

Real estate portfolio value by sector, 30th June 2021



Source: EfTEN

Real estate portfolio value by country, 30th June 2021



Source: EfTEN

EfTEN: Results Review, EURm	Q2/21A	Q2/20A	% y-o-y	H1/21A	H1/20A	% y-o-y
Net sales	3.09	2.42	27.5	5.96	4.87	22.4
Gross profit	3.02	2.36	27.6	5.82	4.72	23.3
EBITDA	2.48	1.97	25.9	4.88	3.84	27.4
Operating profit	4.49	(2.03)	n.m.	6.88	(0.18)	n.m.
Net profit	3.68	(2.17)	n.m.	5.47	(0.81)	n.m.
Gross margin, %	97.6	97.6		97.7	97.0	
EBITDA margin, %	80.3	81.3		82.0	78.8	
Operating margin, %	145.3	(83.8)		115.5	(3.6)	
Net margin, %	119.0	(89.7)		91.9	(16.5)	

Source: EfTEN, LHV

at the end of July 2021, the Fund's NAV and EPRA NAV stood at EUR 17.75 and EUR 18.75 per share, respectively, both rising by 0.8% during the last month. As a reminder, the Fund paid 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 1.03x. 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 7.4% (the median for the peer group is c.a. 4.8%) and its strong tenant quality. EfTEN also indicated that, in January-July 2021, it generated total revenues of EUR 7.1m (+24% y-o-y), EBITDA of nearly 5.9m (+29% y-o-y) and net profits of EUR 6.2m, compared to a net loss of EUR 0.5m for the same period a year ago. The addition of new properties fully offset the recent sluggish performance of the Saules Miestas shopping centre, caused by the restrictions in Lithuania. In Q2 this year, the Fund felt a modest negative impact from the restrictions in Estonia, while Saules Miestas was reopened on 19th April, leading to recovering rental income from that property. In July 2021, the Fund reached new monthly records in terms of the total revenues and EBITDA, amounting to EUR 1.15m and EUR 0.97m, respectively, backed by the gradual removal of the pandemic related rental discounts as well as the full-month rental income from the latest acquisition in Lithuania.

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 of EUR 15.1m and the expected use of proceeds, we have established some core assumptions for our financial projections: a) apart from the portion of proceeds that is already directed to the refinancing of existing liabilities and the latest property acquisition in Lithuania, the remainder of the funds shall be used as an equity portion for new property acquisitions totalling c.a. EUR 12m; b) the new investments shall be done based on the average equity ratio of 50%; c) we have conservatively assumed that the rest of 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 expected additional 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 7.4%, but the indicated yield level is still relatively large in comparison with the average portfolio yields of major regional peers.

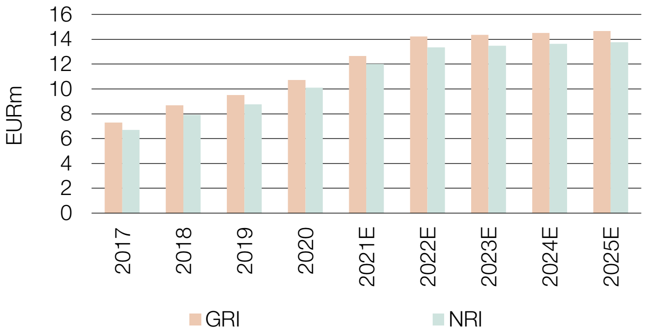
Net Rental Income

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 H1 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 Q2 2021. Nonetheless, the average vacancy of the whole portfolio further declined during the latest quarter, standing at just 0.7%, 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 12m shall be directed to the logistics segments, potentially increasing the NLA of the portfolio by more than 15 thousand sqm to reach nearly 160,000 sqm by the end of 2021. However, the Fund might also consider some office segment properties for investment. Further, we estimate that, for H2 2021, the rental rates remain at the Q2 2021 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 additional investments, they would add over EUR 0.8m 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 12.6m 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 12.0m 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

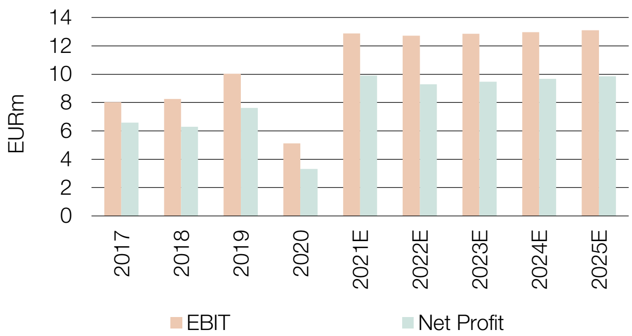
EfTEN's main expenses are general and administrative expenses. It has been assumed that the total annual general and administrative expenses will stabilise, as a percentage of GRI, at the level of 13.5-14.0%, while marketing costs, as a percentage of GRI, could stabilise at slightly above 3%. A majority 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. As a result of the latest semi-annual valuation process concluded in June 2021, the Fund booked another gain from the revaluation of the properties in the amount of EUR 2.0m or 1.4% of the total portfolio value. According to the Fund, the latest changes in the portfolio value mostly reflect improved cash flow expectations for the Saules Miestas shopping centre and the Ulonu office building, while also the values of some other properties were increased due to lower estimated exit yields. 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 lower level compared to the period of 2015-2019, reaching up to EUR 1.4m a year.

Profitability

With potential 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 12.9m in 2021, but to remain broadly steady thereafter mostly due to lower revaluation gains projected. 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 portfolio. Despite increasing financial expenses due to increasing total debt, driven by the property acquisitions, following a dip to just EUR 3.3m in 2020, the net profit could grow to nearly EUR 10m in 2021, though it is predicted to somewhat decline again y-o-y in 2022, amounting to c.a. EUR 9.3m. Please note that the expected modest decline in the net profit in 2022 mostly relates to the anticipated lower revaluation gains in comparison with 2021. Nonetheless, with all 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 12m 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 as planned, the total debt amount could rise by c.a. EUR 5m during 2021. At the end of Q2 2021, the Fund had borrowings of c.a. EUR 72.9m, implying a debt-to-equity (D/E) ratio of 0.82x, presenting a notable decline compared to 0.98x as of Q1 2021, pushed down by the recent rights issue. 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 Q2 2021, the Fund had 92% (Q1 2021: 71%) of total loans bearing floating interest rates, with the margins ranging from 1.40% to 3.75% plus Euribor, while the fixed rates for the remaining debt range from 1.55% to 1.90%. Concerning the portion of floating rate debt, c.a. 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. At the end of the last quarter, the average LTV of the Fund was 46.4%. The average effective interest rate on the Fund's debt liabilities (including interest rate swap agreements) stood at 2.2% in Q2 2021, and we anticipate the effective interest to remain quite stable 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 12m 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

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	**112**	**14.2**	**14.1**	**13.8**	**11.3**	**12.1**	**11.8**	**1.2**	**1.1**	**1.1**	**3.0**	**4.2**	**4.3**
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	6,722	27.5	25.8	24.9	22.1	21.6	20.3	1.3	1.3	1.2	2.9	3.0	3.1
Fabege	4,966	39.1	36.5	34.7	34.0	32.2	29.8	1.2	1.1	1.1	2.4	2.6	2.7
Entra	3,858	31.5	29.3	26.8	28.6	28.4	25.8	1.4	1.4	1.3	2.3	2.4	2.5
Hufvudstaden	3,236	34.2	32.1	32.4	33.0	30.6	29.8	1.1	1.1	1.1	2.0	2.1	2.2
Wihlborgs Fastigheter	3,198	27.2	26.3	25.4	20.8	20.7	19.4	1.6	1.6	1.5	2.6	2.7	2.9
Atrium Ljungberg	2,829	32.3	32.3	29.8	25.1	26.7	25.2	1.1	1.1	1.1	2.4	2.4	2.5
Kungsleden	2,744	27.6	26.1	24.9	20.2	20.5	19.5	1.4	1.3	1.3	2.3	2.5	2.6
Platzer Fastigheter	2,077	37.0	30.4	27.3	22.3	24.2	24.0	1.9	1.7	1.6	1.3	1.4	1.5
Olav Thon Eiendomsselskap	1,896	15.8	15.7	15.3	n.a.	13.5	13.4	0.7	0.7	0.6	4.1	3.3	3.5
Dios Fastigheter	1,336	22.7	21.7	20.8	12.5	14.6	13.8	1.3	1.2	1.1	3.3	3.4	3.6
Citycon	1,305	19.2	18.2	17.6	12.7	12.3	11.7	0.7	0.7	0.7	6.5	6.4	6.1
NP3 Fastigheter	1,161	23.9	21.4	20.2	21.9	18.6	16.5	2.4	2.1	1.9	1.9	2.2	2.4
Norwegian Property	1,128	30.1	28.8	27.7	29.0	22.1	22.4	1.0	1.0	1.0	2.2	2.2	2.2
Median		27.5	26.2	25.2	22.1	21.1	19.9	1.2	1.2	1.1	2.4	2.5	2.7
Average		27.5	25.7	24.5	22.5	21.2	20.1	1.3	1.2	1.2	2.9	3.0	3.1
	Net Debt		EBIT			Net Profit			Book Value			Cash Contribution	
Respective denominator for EfTEN Real Estate Fund III , EURm	(63.0)	12.9	12.7	12.8	9.9	9.3	9.5	93.7	98.2	102.9	2.8	4.7	4.8
Size and liquidity discount	20%												
Indicative value per share		45.9	42.7	41.0	33.9	31.0	30.0	19.0	18.9	18.8	15.2	25.1	24.5
Weight		20%	40%	40%	20%	40%	40%	20%	40%	40%	20%	40%	40%
Implied weighted value per price			**42.7**			**31.2**			**18.9**			**22.9**	

Source: Bloomberg, LHV

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 14 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. Please note that our peer comparison analysis has been significantly influenced by the recent sharp rise in the stock prices of publicly-traded real estate funds compared to our previous quarterly update on EfTEN. Over the last three months, the stock prices of the selected peer companies have increased nearly 20% on average. 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 18.8-19.0
- Distribution Yield –EUR 15.2-25.1
- P/E – EUR 30.0-33.9
- EV/EBIT – EUR 41.0-45.9

EPRA NRV and NIY Correlation

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 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 Q2 2021 EPRA NRV (EPRA NAV if formal EPRA NRV

	Currency	Share Price 19th Aug 2021	EPRA NAV per share 30th June 2021	P/EPRA NAV per share	Net Initial Yield (%)
Baltic Horizon Fund	EUR	1.16	1.1	1.03	5.5
Castellum	SEK	248.70	227.0	1.10	4.8
Fabege	SEK	154.10	160.0	0.96	3.9
Hufvudstaden *	SEK	157.25	182.0	0.86	3.7
Entra	NOK	222.80	198.0	1.13	4.3
Atrium Ljungberg	SEK	218.00	226.6	0.96	4.3
Wihlborgs Fastigheter	SEK	213.60	154.5	1.38	5.0
Citycon	SEK	7.33	11.7	0.63	5.4
Kungsleden	SEK	129.00	105.9	1.22	4.4
Globe Trade Centre *	PLN	6.75	10.8	0.63	7.8
Klovern	SEK	18.14	21.0	0.86	5.1
Dios Fastigheter	SEK	102.00	84.9	1.20	5.6
Platzer Fastigheter	SEK	177.80	101.4	1.75	3.8
Norwegian Property	NOK	18.25	22.2	0.82	3.8
NP3 Fastigheter	SEK	219.00	92.6	2.37	6.7
Median				**1.03**	**4.8**
Quartile 1				0.86	4.1
Quartile 3				1.21	5.5
EfTEN	**EUR**		**18.60**		**7.4**
P/EPRA NAV and NIY correlation implied P/NAV for EfTEN				1.22	
Implied value per share				**22.65**	

Source: Bloomberg, LHV * EPRA NAV data as of Q1 2021 not available) levels and current market prices for fifteen peers, the peer P/EPRA NRV range varies widely from 0.63x to 2.37x, with a median value of 1.03x.

The level of P/EPRA NRV ratios vary 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) vary from 3.7% to 7.8%, with EfTEN presenting NIY at the higher end of the peer group range at 7.4% as of Q2 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 below 0.1x. We calculated the respective correlation implied P/EPRA NRV ratio for the Fund, indicating that EfTEN deserves to trade at a decent premium of c.a. 20% to its EPRA NRV level, implying the fair value of c.a. EUR 22.7 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. Based on these assumptions, the calculated CDDM-based value for EfTEN is c.a. EUR 54m or just EUR 10.6 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 company-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 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. Overall, based on our current projections for EfTEN and other assumptions, we decided to upgrade our FVR further from EUR 20.30-21.70 to EUR 22.00-23.40 per share. Please note that our valuation of the Fund is largely dependent on the peer comparison analysis of different market multiples and, as such, has been significantly influenced by the recent rapid growth in the stock prices of publicly traded real estate funds in comparison with our previous quarterly update on EfTEN. Over the last three months, the stock prices of the selected

CDDM Assumptions:	
Risk free rate	2.5%
Market risk premium	5.1%
Country risk premium	1.2%
Levered Beta	0.64
Adjusted company risk premium	3.9%
Terminal growth rate	2.5%
Cost of equity	**10.9%**

Source: LHV

CDDM sensitivity to changes in assumptions

	CoE						
Terminal growth rate	7.9%	8.9%	9.9%	10.9%	11.9%	12.9%	13.9%
2.2%	15.55	13.27	11.58	10.28	9.24	8.40	7.70
2.3%	15.78	13.44	11.70	10.37	9.31	8.46	7.75
2.4%	16.03	13.61	11.83	10.47	9.39	8.52	7.80
2.5%	16.28	13.78	11.95	10.56	9.46	8.58	7.84
2.6%	16.54	13.96	12.09	10.66	9.54	8.64	7.89
2.7%	16.81	14.15	12.22	10.76	9.62	8.70	7.94
2.8%	17.09	14.34	12.36	10.87	9.70	8.76	8.00

Source: LHV

CDDM Valuation, EURm	2022E	2023E	2024E	2025E	Terminal
Cash distributions	4.7	4.8	4.6	4.7	57.7
PV of Cash distributions	**4.3**	**3.9**	**3.4**	**3.2**	**38.7**
Equity Value					53.6
Shares outstanding					5.07
Value per share					**10.56**

Source: LHV

peer companies have increased nearly 20% on average. 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 slightly lower Cost of Equity, and closer proximity of stronger post-COVID cash flows. In sum, our valuation approach indicates that, based on its solid NIY, conservative asset valuations, and strong tenant quality, EfTEN deserves to trade at a solid premium of 17-24% to its EPRA NRV. 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			
P/EPRA NRV & NIY	22.65	40.0%	9.06
CDDM	10.55	20.0%	2.11
P/Book	18.87	10.0%	1.89
Div Yield	22.90	10.0%	2.29
P/E	31.19	10.0%	3.12
EV/EBIT	42.67	10.0%	4.27
Total weighted value per share			**22.74**

Source: LHV

Financial Tables

Income Statement, EURm	2017	2018	2019	2020	2021E	2022E	2023E
Total revenue	7.30	8.67	9.51	10.73	12.64	14.22	14.36
Cost of services sold	(0.17)	(0.32)	(0.33)	(0.33)	(0.33)	(0.40)	(0.40)
Gross Profit	**7.13**	**8.35**	**9.18**	**10.41**	**12.32**	**13.82**	**13.96**
Marketing costs	(0.44)	(0.44)	(0.43)	(0.30)	(0.31)	(0.47)	(0.47)
General and administrative expenses	(1.56)	(1.23)	(1.85)	(1.60)	(1.80)	(1.96)	(1.98)
Gain/loss from revaluation of investment properties	2.86	1.56	3.10	(3.37)	2.66	1.35	1.36
Other operating income and expenses	0.05	0.00	0.04	(0.00)	(0.00)	(0.02)	(0.02)
EBIT	**8.03**	**8.26**	**10.05**	**5.13**	**12.87**	**12.72**	**12.85**
Interest income	-	-	0.01	-	-	-	-
Finance expenses	(0.69)	(1.10)	(1.20)	(1.32)	(1.70)	(1.78)	(1.71)
Pre-tax profit	**7.34**	**7.16**	**8.86**	**3.81**	**11.16**	**10.94**	**11.13**
Income tax	(0.77)	(0.86)	(1.25)	(0.49)	(1.27)	(1.66)	(1.67)
Net profit/(loss)	**6.57**	**6.30**	**7.62**	**3.32**	**9.89**	**9.28**	**9.47**
Minority Interest	-	-	-	-	-	-	-
Net profit/(loss) attributable to shareholders	**6.57**	**6.30**	**7.62**	**3.32**	**9.89**	**9.28**	**9.47**

Source: EfTEN for historicals, LHV for estimates

Balance Sheet, EURm	2017	2018	2019	2020	2021E	2022E	2023E
Assets							
Cash and Equivalents	8.13	4.86	12.99	5.13	6.77	6.63	5.96
Short-term deposits	-	-	6.00	-	-	-	-
Accounts receivable	0.64	0.67	0.67	2.02	1.11	1.17	1.18
Prepaid expenses	0.04	0.05	0.05	0.13	0.05	0.05	0.05
Total Current Assets	**8.81**	**5.58**	**19.70**	**7.27**	**7.95**	**7.88**	**7.22**
Long-term receivables	0.05	0.02	-	0.02	0.00	0.00	0.00
Investment property	88.39	102.79	113.01	144.24	170.19	172.40	174.62
Fixed assets	0.04	0.11	0.11	0.10	0.15	0.16	0.16
Intangible assets	0.00	-	-	0.00	0.00	0.00	0.00
Total Non-Current Assets	**88.48**	**102.93**	**113.13**	**144.36**	**170.35**	**172.56**	**174.79**
Total Assets	**97.29**	**108.50**	**132.83**	**151.63**	**178.31**	**180.44**	**182.01**
Liabilities							
Borrowings - ST portion	2.11	8.11	21.15	28.78	10.20	10.20	10.20
Derivative instruments	0.06	0.19	0.27	0.25	0.27	0.28	0.29
Payables and prepayments	1.85	1.02	1.13	2.00	1.35	1.42	1.44
Total Current Liabilities	**4.02**	**9.31**	**22.55**	**31.02**	**11.82**	**11.90**	**11.92**
Borrowings	43.67	44.74	34.23	43.59	66.70	63.90	60.70
Other LT liabilities	0.36	0.46	0.61	0.96	1.08	1.14	1.15
Deferred income tax liabilities	2.86	3.50	4.27	4.58	5.00	5.26	5.31
Total Non-Current Liabilities	**46.89**	**48.70**	**39.11**	**49.13**	**72.78**	**70.30**	**67.16**
Total Liabilities	**50.91**	**58.01**	**61.66**	**80.15**	**84.60**	**82.20**	**79.08**
Equity							
Share capital	32.23	32.23	42.23	42.23	50.73	50.73	50.73
Share premium	3.66	3.66	9.66	9.66	16.29	16.29	16.29
Statutory reserve capital	0.29	0.62	0.94	1.32	1.49	1.98	2.45
Retained earnings	10.21	13.99	18.35	18.28	25.20	29.25	33.47

Balance Sheet, EURm...continued	2017	2018	2019	2020	2021E	2022E	2023E
Total Equity	**46.39**	**50.49**	**71.17**	**71.48**	**93.71**	**98.24**	**102.93**
Total Equity and Liabilities	**97.29**	**108.50**	**132.83**	**151.63**	**178.31**	**180.44**	**182.01**

Source: EfTEN for historicals, LHV for estimates

Cashflow Statement	2017	2018	2019	2020E	2021E	2022E	2023E
Operating cash flow							
Net Profit	**6.57**	**6.30**	**7.73**	**3.32**	**9.89**	**9.28**	**9.47**
Financial income	-	-	(0.01)	-	-	-	-
Interest paid	0.77	1.10	1.18	1.32	1.70	1.78	1.71
Other financial costs	(0.08)	-	-	-	-	-	-
Gain/loss from revaluation of investment property	(2.86)	(1.56)	(3.10)	3.37	(2.66)	(1.35)	(1.36)
Gain from selling investment properties	(0.04)	(0.01)	(0.03)	0.00	-	-	-
Change in the success fee liability	0.46	-	-	-	-	-	-
Depreciation and amortisation	0.02	0.02	0.07	0.05	0.06	0.06	0.06
Income tax expense	0.77	0.86	1.13	0.49	1.27	1.66	1.67
Cash flow from operations before changes in working capital	**5.62**	**6.71**	**6.97**	**8.56**	**10.26**	**11.43**	**11.54**
Change in working capital	(1.47)	(0.12)	0.32	(0.53)	0.18	0.01	0.00
Cash Flow from Operating Activities	**4.15**	**6.59**	**7.29**	**8.03**	**10.44**	**11.44**	**11.54**
Investing cash flow							
Purchase of property, plant and equipment	(0.02)	(0.10)	(0.04)	(0.04)	(0.11)	(0.06)	(0.06)
Sale/(Purchase) of investment property	(9.84)	(13.52)	(7.33)	(18.80)	(23.30)	(0.85)	(0.87)
Acquisition of subsidiaries	(1.14)	(0.10)	-	(8.62)	-	-	-
Short-term deposits	-	-	(6.00)	6.00	-	-	-
Interest received	-	-	-	0.01	0.00	-	-
Cash Flow from Investing Activities	**(11.00)**	**(13.72)**	**(13.37)**	**(21.44)**	**(23.40)**	**(0.91)**	**(0.93)**
Financing cash flow							
Loans received/repaid, net	3.11	7.06	2.51	9.92	4.52	(2.80)	(3.20)
Interest paid	(0.77)	(0.95)	(1.10)	(1.36)	(1.77)	(1.78)	(1.71)
Proceeds from issuance of shares	10.99	-	16.00	-	15.13	-	-
Income tax paid on dividends	(0.04)	(0.07)	(0.14)	(0.26)	(0.70)	(1.66)	(1.67)
Dividends paid	(1.50)	(2.19)	(3.06)	(2.75)	(2.80)	(4.75)	(4.78)
Change in other LT liabilities	-	-	-	-	0.22	0.33	0.07
Cash Flow from Financing Activities	**11.79**	**3.85**	**14.21**	**5.55**	**14.60**	**(10.66)**	**(11.29)**
Cash and equivalents at beginning of the period	**3.19**	**8.13**	**4.86**	**12.99**	**5.13**	**6.77**	**6.63**
Total periods cash flow	4.94	(3.27)	8.13	(7.86)	1.64	(0.13)	(0.67)
Cash and cash equivalents at end of the period	**8.13**	**4.86**	**12.99**	**5.13**	**6.77**	**6.63**	**5.96**

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	17.8	12.5	1.0
Gross Profit (%)	38.4	17.1	9.9	13.3	18.4	12.2	1.0
EBITDA (%)	43.2	19.4	11.2	14.6	19.9	11.4	1.0
EBIT (%)	38.8	2.8	21.6	(48.9)	150.8	(1.1)	1.0
Pre-tax Profit (%)	43.2	(2.5)	23.7	(57.0)	193.2	(2.0)	1.8
Net Profit (%)	51.2	(4.2)	20.9	(56.5)	198.2	(6.1)	2.0
EPS (%)	14.4	(18.2)	3.0	(61.0)	148.2	(6.1)	2.0
Profitability							
Gross margin (%)	97.7	96.3	96.5	97.0	97.4	97.2	97.2
EBITDA margin (%)	77.0	77.4	78.5	79.7	81.2	80.4	80.4
EBIT margin (%)	110.0	95.2	105.6	47.8	101.8	89.4	89.4
PBT margin (%)	100.6	82.6	93.2	35.5	88.3	76.9	77.5
Net Profit margin (%)	90.1	72.6	80.1	30.9	78.2	65.3	65.9
Return							
ROCE (%)	9.7	8.4	8.7	3.8	8.2	7.4	7.4
ROE (%)	17.1	13.0	12.5	4.7	12.0	9.7	9.4
ROA (%)	7.5	6.1	6.3	2.3	6.0	5.2	5.2
Liquidity							
Current ratio (x)	2.2	0.6	0.9	0.2	0.7	0.7	0.6
Quick ratio (x)	2.2	0.6	0.6	0.2	0.7	0.7	0.6
Leverage							
Net Debt (EURm)	37.6	48.0	42.4	67.2	70.1	67.5	64.9
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 20th Aug 2021 while used the latest reported data (30th June 2021) for net debt, investment in associates, and minority interest.

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