

Results Review

1 February 2024

Real Estate Investing

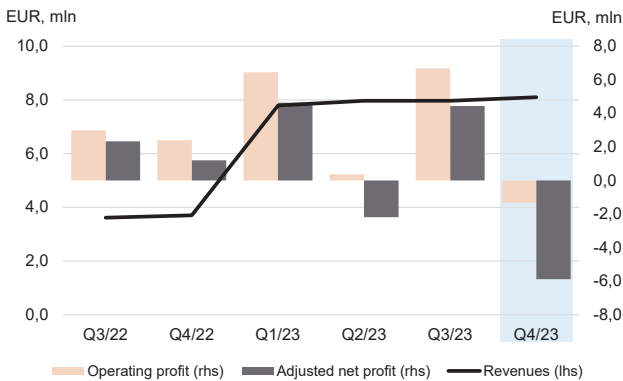
EfTEN Real Estate Fund

Another revaluation losses, management indicates the amount of dividend.

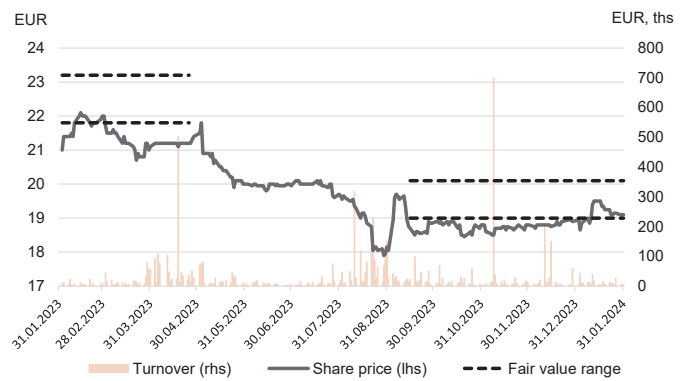
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	Buy
Fair value range (EUR):	19.0 - 20.1
Share price (EUR):	19,10
Symbol:	EFT1T

Company's financial results



Historical share price: EFT1T



Sources: Eften Real Estate Fund, Nasdaq Baltic, LHV. *lhs – left hand side, rhs – right hand side

EfTEN Real Estate Fund (from now on, 'EfTEN' or the 'Fund') announced its Q4 2023 results on February 1. As a reminder, on January 1 2023, the Fund merged with EfTEN Kinnisvarafond AS. As a result of the merger, the size of EfTEN more than doubled, with the current property portfolio reaching c.a. EUR 358m, thus creating the largest real estate investment fund in the Baltic states.

In Q4 2023, EfTEN's revenues amounted to EUR 8.1m or +1.7% compared to the last quarter. The portfolio's vacancy rate slightly increased (2.6% in Q4 compared to 2.0% in Q3), mainly due to the office segment (7.8% in Q4), where it has taken longer for EfTEN to fill vacant rental premises. Most of the increased vacancies in the office segment can be related to Piepilsetas's logistics centre (a vacancy rate of 19.1% as of the end of 2023). According to the Fund, negotiations with new tenants are ongoing. Overall, the slight decline in the rental revenue from the office segment was compensated above the expected revenues from the retail segment. In 2023, the net rental income calculated on a like-for-like basis increased by 3.4% y-o-y. As there were no significant changes in the costs of services sold, the Fund's gross profit (EUR 7.6m) also remained equal to the previous quarter. In operational expenses, compared to the last quarter, both the marketing and administrative expenses slightly increased in Q4.

The most significant surprise in the Q4 results was the revaluation losses in the amount of 7.8m EUR. EfTEN evaluates investment properties twice a year - in June and December. As a reminder, the Fund reported revaluation losses of 6.2m EUR in June last year. In total, for 2023, EfTEN has accounted for revaluation losses of 13.9m EUR, constituting a 3.9% decrease in the value of investment properties during 2023. Last year's revaluation losses were most prominent in the office segment (-9.0%), followed by care homes (-5.8%) and logistics segments (-3.7%), while in the value of the retail segment properties remained at the same level (+0.1%). According to the Fund, the market value of investment properties fell due to the decreased activity of real estate transactions, more conservative net rental income forecasts and increased Euribor. As analysts have a growing consensus regarding the possibility of declining Euribor this year, it can be assumed that the fair value of investment property will partially recover.

Company Profile

Listing market	Baltic Main List
Ticker	EFT1T
Sector	Financials
Industry	Real Estate
Website	www.efTEN.ee

Share data, as of 31 Jan 2024 (EUR)

Current Share Price	19.10
Fair Value Range:	19.0 – 20.1
Total Return on Investment, %*	7.85
52-week High/Low:	22.10 / 17.90
3m Avg. Daily Volume (th):	25.66
Market Cap (EURm):	206.66
Ordinary Shares (m):	10.82

*Including dividends; to mid-point of FVR

Key Shareholders, as of 31 Jan 2024

LHV Pensionifond L	11.2%
REF Aktsiad OÜ	10.6%
Altiuse KVI OÜ	10.1%

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Key Numbers (EURm)	2020	2021	2022	2023	2024E*	2025E*
Sales (EURm)	10.7	12.9	14.3	31.8	32.5	33.1
Sales growth (%)	12.8	20.4	10.7	122.5	2.1	1.9
Net profit (EURm)	3.3	13.1	11.4	1.0	16.4	17.7
EPS (EUR)	0.79	2.58	2.25	0.09	1.52	1.64
P/E (x)	24.2	8.8	10.1	200.7	12.2	11.3
Payout per share (EUR)	0.65	0.55	0.80	1.15	0.79	0.84
Payout yield (%)	3.4	2.4	3.5	6.2	4.3	4.5
P/B (x)	1.1	1.2	1.1	0.9	0.9	0.9
EV/Sales (x)	13.7	13.4	12.0	10.5	10.1	9.7
EV/EBITDA (x)	17.2	17.1	14.6	12.8	12.3	11.7
EV/EBIT (x)	28.8	10.5	11.6	27.5	12.9	12.3
ROE (%)	4.7	15.6	11.3	0.6	7.4	7.7

Sources: Eften, LHV *2024E-2025E multiples are based on the share price of EUR 18.55 per share

Rising financial expenses continue to squeeze EFTEN's bottom line. The weighted average interest rate of the EFTEN's loan agreements rose to 5.9% by December, the highest level ever observed during the Fund's history. As a reminder, at the end of 2022 and 2021, the Fund's weighted average interest rate stood at 3.7% and 2.3%, respectively. As all loan agreements for the Fund's subsidiaries are tied to floating interest rates, the continued appreciation of Euribor directly impacts EFTEN's financial expenses, amounting to nearly EUR 2.3m in Q4. We expect EFTEN's financial expenses to remain high in the near term.

Due to the new revaluation losses, supported by the elevated financial expenses, EFTEN ended Q4 with a net loss of 5.9m EUR, constituting the net profit for last year merely in the amount of 1.0m EUR (EUR 11.4m in 2022). As of the end of 2023, the Fund's net asset value ('NAV') stood at EUR 20.21 per share (-1,7% y-o-y) and EPRA NRV per share at EUR 20.96 per share (-4,3% y-o-y).

As of the end of 2023, EFTEN owned 35 investment properties (compared to 18 on December 31, 2022), with a fair value of EUR 354.4m on the balance sheet. In addition, the Fund's joint venture owns the Palace Hotel in Tallinn, with a fair value of 9.0m EUR as of the end of 2023. In Q3 2023, the construction of the Tartu care home (Estonia) began - the property for 120 clients will be completed in 2024.

Besides this, the Fund has no other ongoing developments. The EPRA LTV of the whole portfolio stood at 37.2% at the end of 2023, compared to 33.6% at the end of 2022.

With its Q4 results, EFTEN also indicated the dividend amount for the last year. The Fund's management plans to propose at the 2024 spring general meeting to pay a net dividend of 1.0 EUR per share (1.15 EUR per share for 2022), constituting a dividend yield close to 5% (considering EFTEN's current share price).

Despite the reported revaluation losses, we will remain relatively confident regarding EFTEN's prospects in the near to medium term. EFTEN's property portfolio is solid, the Fund has kept the property portfolio's vacancy rate at low levels, and we do not foresee significant fluctuations in rental revenues. Compared to the real estate funds operating in the Baltic and Nordic countries, EFTEN's financial leverage stands at a reasonable level, indicating rational risk management. The financial expenses will remain high in the near term, but the Fund is able to cope with it. However, in the near to medium term, we will remain cautious regarding the uncertainty in the Baltic real estate investment market.

Regarding EFTEN's share price, we will maintain our fair value range of EUR 19.0-20.1, established in September 2023.

EFT1T: Results Review, EUR mln	Q4/23A	Q4/22A	% y-o-y	2023A	2022A	% y-o-y
Revenue	8.10	3.70	119.1	31.82	14.30	122.5
Gross profit	7.60	3.64	108.5	30.19	14.03	115.2
EBITDA	6.44	2.99	115.4	26.15	11.82	121.3
Revaluation gain/losses	(7.76)	(0.58)	n.a.	(13.94)	3.12	n.a.
Operating profit	(1.33)	2.40	n.a.	3.86	13.21	(70.8)
Net profit	(5.88)	1.20	n.a.	1.00	11.41	(91.2)
Gross margin, %	93.8	98.5		94.9	98.1	
EBITDA margin, %	79.5	80.9		82.2	82.7	
Operating margin, %	(16.4)	64.8		12.1	92.4	
Net margin, %	(72.6)	32.4		3.1	79.8	

Source: Eften Real Estate Fund

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Date and time of sign-off and publishing: Thursday 1 February, 15:30

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