

Arcona Property Fund NV

Sponsored Research

Netherlands | Real Estate

Investment Research



Full Company Report

Reason: Initiation of coverage

16 August 2018

Buy
from
Share price: EUR 7.20
closing price as of 14/08/2018
Target price: EUR 9.88

Upside/Downside Potential 37.3%

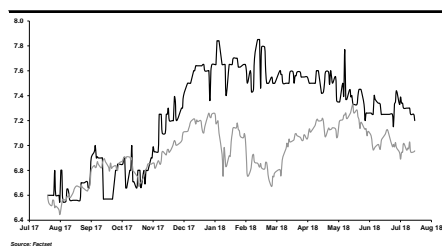
Reuters/Bloomberg ARCPF.AS/ARCPF.NA

Market capitalisation (EURm)	23
Current N° of shares (m)	3
Free float	46%
Daily avg. no. trad. sh. 12 mth	1
Daily avg. trad. vol. 12 mth (m)	1.23
Price high/low 12 months	6.55 / 7.85
Abs Perfs 1/3/12 mths (%)	-0.69/-2.96/10.77

Key financials (EUR)	12/17	12/18e	12/19e
Gross Rental Income (m)	8	9	9
EBITDA (m)	3	4	4
EBITDA margin	28.6%	32.4%	33.5%
Portfolio Result (m)	5	0	0
Net Financial Result	(2)	(2)	(2)
Net Profit (adj.)(m)	6	2	2
Funds From Operations	0.44	1.54	1.85
EPS (adj.)	1.55	0.47	0.56
DPS	0.24	0.19	0.23
IFRS NAVPS	13.28	13.59	14.05
EPRA NAVPS	13.37	13.59	14.05
Premium/(Discount)	(44.3%)	(47.0%)	(48.7%)
Earnings adj. yield	21.5%	6.5%	7.7%
Dividend yield	3.3%	2.7%	3.2%
EV/EBITDA	23.2	17.6	16.2
P/E (adj.)	4.8	15.3	13.0
Int. cover(EBITDA/Fin.int)	1.7	2.2	2.5
Net debt/(cash) (m)	46	42	41

Shareholders

H.M. Van Heijst 33%; Ver. BC't Stockpaert 12%; St. Bewaarder Waardegroefondsen 4%; A.F.A.J. Wigman 4%;



Analyst(s)

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An expanding portfolio in a strengthening market

Arcona offers the opportunity to invest in a growing Central and Eastern European (CEE) commercial real estate fund. The investment company has a recently repositioned property portfolio in Czech Republic, Slovakia and Poland, which churns out cash to facilitate property upgrades and acquisitions going forward. Due to Arcona's differentiated acquisition strategy and local presence, the fund has an edge in sourcing attractive yielding assets to support its growth ambition. We initiate coverage on Arcona Property Fund NV (Arcona or ARCPF) with a BUY rating and EUR 9.9 TP, providing 37.3% upside.

- ✓ Since the current Arcona management team took over the fund's management in 2012, it has repositioned the property portfolio by selling underperforming properties, restructuring and reducing the debt outstanding and reducing the overall management fee. The focus on free cash flow generation has put the company in a position to improve the overall quality of the portfolio by property upgrades and acquisitions, boosting occupancy. We expect additional improvement, especially in the Slovakian portfolio, by capital recycling.
- ✓ Arcona's has a focused portfolio in the fast growing Central and Eastern European (CEE) economies, that average 4.7% GDP growth in a decade versus 2.4% for all EU countries. In addition, the CEE region benefits from primarily Western European firms opening or expanding their offices for business services jobs due to a relatively cheap but well qualified labour force. As a result of the attractive current and forecasted economic performance of the region, investment activity is picking up. Arcona benefits from the growth in disposable income in the region and institutional investors moving deeper into the CEE region to escape competition, driving up valuations and liquidity for its current properties.
- ✓ With a management team that has been active in the CEE markets for more than fifteen years and a differentiated acquisition strategy, Arcona has the local market knowledge and access to find attractive assets. The acquisition strategy encompasses a focus on multi-tenant high-yielding commercial property in regional locations with individual property sizes between EUR 5-15m, whereas competitors mostly invest in single-tenant prime (capital) city offices or retail centers with asset sizes above EUR 50m. As a result, the fund has a larger opportunity set to source attractive yielding assets via its local presence, which supports the fund's value-creating growth ambition.
- ✓ Based on the equal weighted outcome of our DCF and peer analysis, we estimate the company's current fair value at EUR 9.9. Our DCF provides an estimate of EUR 9.3 while the peer analysis estimate is EUR 10.50 per share.

Produced by:



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