Cromwell European REIT

Version 3 | Bloomberg: CERT SP | Reuters: CROM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Mar 2019

BUY

Last Traded Price (14 Mar 2019): EUR0.49 (**STI :** 3,197.92)
Price Target 12-mth: EUR0.59 (20% upside) (Prev EUR0.66)

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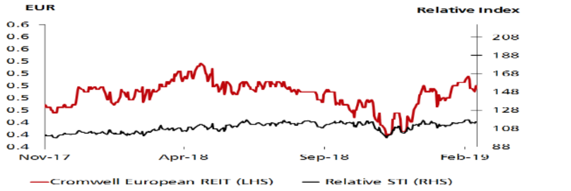
What's New

- Deepens presence in Netherlands, Italy and France and maiden entry into Finland and Poland
- Acquisition of 22 office and logistics properties for EUR377m on a net initial yield of 6.2-8.9%
- Impact from rights issue but acquisition to strengthen portfolio and accelerate medium-term growth
- FY18 results in line with expectations excluding impact of recent rights issue

Price Relative



Forecasts and Valuation

FY Dec (EURm)	2017A*	2018A	2019F	2020F
Gross Revenue	10.7	125	169	173
Net Property Inc	7.25	82.9	111	114
Total Return	(22.3)	108	74.0	84.3
Distribution Inc	6.43	67.9	91.5	94.2
EPU (Euro cts.)	(1.4)	5.75	3.36	3.79
EPU Gth (%)	nm	nm	(42)	13
DPU (Euro cts.)	0.38	3.53	4.14	4.22
DPU Gth (%)	nm	nm	17	2
NAV per shr (Euro cts.)	52.5	51.3	50.5	50.0
PE (X)	nm	8.5	14.6	12.9
Distribution Yield (%)	0.8	7.2	8.5	8.6
P/NAV (x)	0.9	1.0	1.0	1.0
Aggregate Leverage (%)	36.7	34.5	36.5	37.2
ROAE (%)	(5.4)	11.1	6.6	7.5
DPU Chng (%):			(8)	(5)
Other Broker Recs:		B: 2	S: 0	H: 1

** 30 November 2017 to 31 December 2017*

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Expanding its boundaries

Attractive yield on offer. We maintain our BUY call on Cromwell European Real Estate Investment Trust (CERT) with a revised TP of EUR0.59. We continue to be bullish on CERT's prospects, given an attractive 8.5% FY19F forward yield with further upside to our DPU estimates should CERT execute its previously announced asset recycling of disposing some of its smaller and lower-yielding properties into better quality properties.

Where we differ: More positive than most. While most investors are generally cautious on CERT prospects given the more downbeat Eurozone macro outlook coupled with the overhang from the impact from a recent rights issue, we believe that the 16% correction in share price will have reflected most of these negatives. With a recapitalised balance sheet, we see investors' confidence returning over time as management set out to establish a track record of value accretive acquisitions to drive earnings and NAV. The portfolio WALE of 4.6 years coupled with a forward yield in excess of 8.0% offer comfort that dividends yields are relatively secured and as management delivers on its value enhancing acquisition strategy over time, we see a steady rise in share price.

Delivery of acquisition benefits. We believe if CERT delivers a 17% y-o-y jump in DPU in 2019 as per our forecast, it will help demonstrate to investors the benefits from the recent acquisitions. In the longer term, the opportunity to reposition 10-hectare Park des Docks St Ouen (EUR 114m,6% of AUM) site into a mixed-use commercial site offer significant upside to distributions and NAV in the longer term.

Valuation:

After incorporating the recent acquisition and rights issue, we lowered our DCF-based TP to EUR0.59 from EUR0.66.

Key Risks to Our View:

The key risk to our view is lower-than-expected rental income, arising from loss of tenants or slower upturn in rents/inflation.

At A Glance

Issued Capital (m shrs)	1,581
Mkt. Cap (EURm/US$m)	775 / 876
Major Shareholders (%)	
Cromwell Singapore Holdings Pte	24.6
Tang Gordon	16.7
Hillsboro Capital Ltd	11.4
Free Float (%)	40.7
3m Avg. Daily Val (US$m)	2.4
ICB Industry : Financials / Real Estate Investment Trust	

Live more, Bank less

ed: TH/ sa: AS, CW, CS

WHAT'S NEW

Why remain bullish

Our positive investment base for CERT

- We remain positive on CERT's prospects over the year despite the correction in CERT's share price in late 2018 (which has since partially recovered year to date due to strong equity market backdrop) and downward revisions to the economic outlook in Europe.
- We believe CERT's long WALE of 4.6 years with in-built rental escalations should help smoothen any potential negative drag on rents in CERT's key markets.
- We do not question the merits to CERT's decision to acquire 22 properties in Netherlands, Finland, Poland, France and Italy, namely the diversification benefits and upside to income from driving an improvement in occupancy. However, we believe the 16% fall in CERT's share price late last year was due to the market's disappointment over CERT's maiden equity funding exercise being conducted via a rights issue.
- Looking ahead, CERT should benefit from the full-year contribution from the acquired buildings and the REIT's attractive 8.5% yield. We believe the majority of the disappointment has been priced in.
- Moreover, if CERT enacts its strategy of selling some of its smaller and lower-yielding properties and recycling the proceeds into higher-growth or higher-yielding properties, this should not only show investors the ability to realise its NAV but also accelerate its medium-term growth potential, which in our view should act as a re-acting catalyst.
- Thus, we reiterate our BUY call with a revised TP of EUR0.59.

Executes inorganic strategy

- On 30 October 2018, CERT announced the execution of its first large portfolio acquisition, after its maiden acquisition of Vodafone's headquarters in Irvea, Italy for EUR16.9m on a net initial yield of 8.4% in June 2018.
- CERT proposed the purchase of 16 predominantly office properties in the Netherlands, Finland and Poland ("New Properties" portfolio) from a fund managed by its Sponsor for EUR312.6m and 6.2% net initial yield. This acquisition was subject to unitholder approval which was subsequently obtained.
- Concurrently, CERT also announced the acquisition of
    - four logistic properties in France (French Properties) for EUR28.2m and on an 8.9% net initial yield, as well as
    - two Italian office properties for EUR36.0m on a 7.4% net initial yield.
- These six properties were bought from a third-party vendor and thus, not subject to unitholder approval.
- To fund these acquisitions, CERT conducted a 38-for-100 rights issue (rights price of EUR0.373) raising gross proceeds of c.EUR224m.
- The acquisitions of the 22 office and logistics properties were completed over December 2018 and February 2019. CERT originally intended to acquire a DIY home improvement centre in France but owing to further due diligence on the property, it decided not to proceed with the purchase.

New Properties, Italian Properties and French Properties overview

- The "New Properties" portfolio consists of (1) two office buildings in Utrecht and 's-Hertogenbosch, Netherlands (40.8% by purchase price), (2) 11 office buildings in Helsinki and Kuopio, Finland (36.2%) and three office properties in Warsaw and Gdansk, Poland (23.0%)
- Total lettable area for the "New Properties" stands at 53,901 sqm with WALE of 4.7 years. Average occupancy stood at 84.5% as at 31 August 2018.
- The two office buildings in the "Italian properties" portfolio have a total lettable area of 27,211 sqm and are fully occupied. WALE as at 30 September 2018 was 5.0 years.
- The "French Properties" portfolio of four logistics properties has a total lettable area of 37,342 sqm and 100% occupancy.

Diversification benefits and acceleration of medium-term growth

- A key benefit from the proposed acquisitions is a further diversification of CERT's portfolio. Post the acquisitions, Finland and Poland which are new markets for CERT will contribute 6.3% and 4.0% respectively to the enlarged portfolio by value. Meanwhile, contribution from Denmark, Italy, France and Germany will drop from 5.9%, 30.1%, 22.6% and 7.8% to 4.5%, 25.5%, 19.5%, 6.3% respectively. However, The Netherlands will remain the largest contributing country at 33.9%, up from 33.8% previously.
- Another benefit of this acquisition is to further accelerate CERT's medium-term growth. Specifically, there is an opportunity to improve the "New Properties" net initial yield from 6.2% to 7.4% by driving an improvement in occupancy from the 84.5% level.
- Furthermore, the markets that CERT is expanding into offer stable, if not rising rents.

Potential investors' concerns over transaction

- With CERT's move into Finland and Poland for the first time, some investors may be cautious on this exposure given the lack of familiarity with both countries.
- Furthermore, during the IPO process, CERT removed the Polish retail asset from the portfolio given concerns over exposure to a developing country as compared to the remainder of CERT's portfolio which is focused on Western Europe.
- In addition, rents in the Warsaw office market in Poland have been under pressure and vacancy rates have been elevated due to an increase in supply.
- Nevertheless, we believe some of the concerns over Poland should be partially allayed by the fact that Poland has now been classified as a developed market in the FTSE Russell equity index. In addition, according to Cushman and Wakefield, as well as CERT's own on-the-ground market research, due to healthy demand, the new supply is expected to be absorbed which should translate into higher rents especially in the central areas over the next 1-2 years.
- On Finland, based on Cushman and Wakefield's analysis, strengthening demand should result in higher market rents.

FY18 results in line with expectations

- CERT reported FY18 (1 January to 31 December 2018) DPU of 3.69 EURcts or after applying the rights adjustment factor DPU of 3.53 EURcts
- Stripping out the impact of the rights shares, FY18 DPU would have come in at c.4.3 EURcts which is in line with our original estimates before the announced acquisitions and rights issue in late 2018.
- The dilution to FY18 DPU was mainly on account of the additional shares from the rights issue in late 2018 and less than one month's worth of earnings contribution from the acquisition of 15 properties with the completion of another seven properties to be completed over January to February 2019.
- Since its listing on 30 November 2017 to 31 December 2018, excluding the impact of the rights issue, CERT delivered a DPU of 4.70 EURcts which is 1.4% above IPO forecast. The ability to beat IPO projections was due to 1% higher revenue of EUR135.3m (slight higher rental income) and better cost control translating into better NPI margins of c.67% versus c.65% and 3.7% higher NPI of EUR90.2m. This should give investors' confidence over CERT's ability to drive its asset performance despite the disappointment over the impact the recent rights issue on its 2H18 DPU.
- For 2018, while occupancy for the office portfolio averaged around 96% versus IPO forecasts of c.97% (lower-than-expected occupancy for the Netherlands properties), occupancy for the light industrial/logistics largely tracked expectations. Nevertheless, overall portfolio occupancy had increased to c.91% by end-December 2018 from c.88% at listing in 2017.
- In early 2018, CERT generally reported healthy positive rental reversions. However, for leases that were renewed in 4Q18, CERT reported 15% and 2% declines in rents for the office and light industrial/logistics portfolios respectively. While this is disappointing, short-term volatility in rental reversions from quarter to quarter is to be expected.
- Following these renewals, around 10.7% and 7.2% of leases are set to expire in FY19 and FY20 respectively.

Drop in gearing post revaluation gains before rebounding, once remaining acquisitions are completed in 1Q19

- Following a modest EUR60.1m worth of revaluation gains (mainly due to higher income) and additional equity raised, CERT's aggregate leverage fell to 33.0% from 34.9% as at end-September 2018 due to the impact from the equity raising. However, following the completion of the acquisition of another seven properties in January and February 2019, CERT's aggregate leverage is expected to climb to c.35.6% which still provides the REIT with some debt headroom to pursue acquisitions.
- Meanwhile, CERT's average cost of debt remains low at c.1.4% with the proportion of fixed rate debt expected to recover to 87.4% post the drawdown of new debt for the acquisitions in 1Q19. The proportion of fixed rate debt had dropped to 71.2% from 84.4% as at end-September 2018.
- Despite the revaluation gains, due to the impact of the recent rights issue, NAV per unit fell to 51.3 EURcts from 52.5 EURcts and 55.3 EURcts as at end-September 2018 and December 2017 respectively.

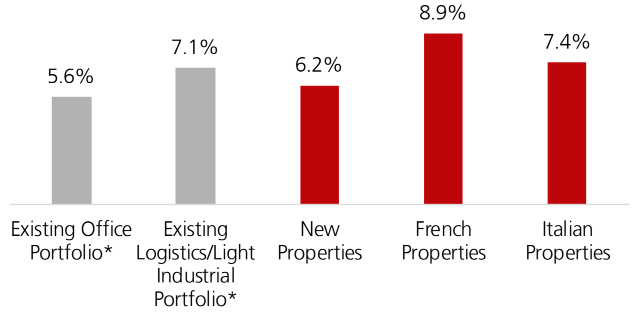
Reversion to DPU estimates and lowering of our TP to EUR0.59

- After incorporating the additional shares from the recent rights issue and acquisition of 22 properties, we lowered our FY19-20F DPU by 5-8% and cut our DCF-based TP to EUR0.59 from EUR0.66.
- Despite the downward revision to our DPU estimates, we still expect CERT to deliver a healthy 3-year DPU CAGR of 6.5% per annum.

Maintain BUY

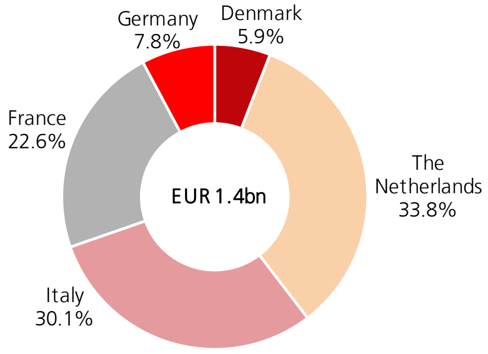
- With 19% capital upside, we reiterate our BUY call with a revised TP of EUR0.59.
- We continue to like CERT for its attractive 8.5% forward yield and expected 6.5% 3-year DPU CAGR.

Net initial yield of acquired portfolio



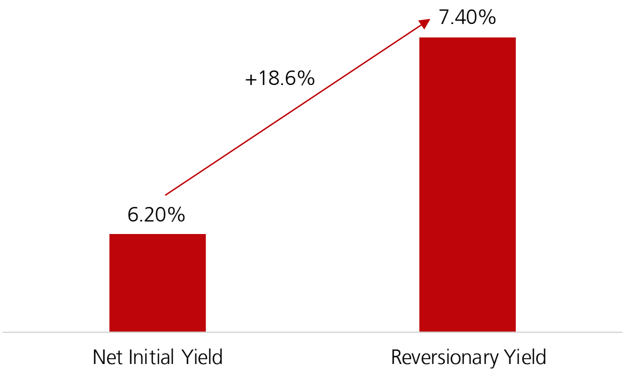
** Pre-acquisition and revaluation gains*
Source: CERT, DBS Bank

Country exposure by valuation pre-acquisition



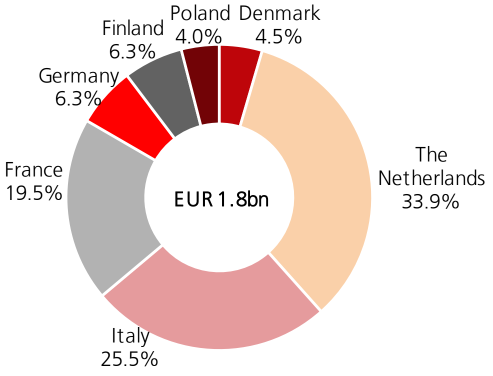
Source: CERT, DBS Bank

Net initial and reversionary yield for "New Properties" portfolio



Source: CERT, DBS Bank

Country exposure by valuation post-acquisition



Source: CERT, DBS Bank

Summary of "New Properties" Portfolio

No	Property	Land Tenure	Construction / Refurbishment	LFA* (sqm)	Valuation by C&W (EUR'm)	Valuation by Colliers (EUR'm)	Purchase Price (EUR'm)	WALE* (years)	Occupancy rate* (%)
	Netherlands								
1	Moeder Teresalaan 100-200, Utrecht	Leasehold plot acquired in perpetuity	1987-1990 / 2015	21,922	50.1	51.5	50.7	6.3	86.1
2	Willemsplein 2, 's-Hertogenbosch	Freehold	1956 / 2006 - 2009	31,979	74.7	77.6	76.9	7.1	91.9
	Subtotal			**53,901**	**124.8**	**129.1**	**127.6**	**6.8****	**89.5****
	Finland								
3	Plaza 2 Park (Plaza Vivace), Helsinki Metropolitan Area	Freehold	2008 / NA	5,661	14.1	12.9	13.2	2.2	88.3
4	Plaza 2 Park (Plaza Allegro), Helsinki Metropolitan Area	Freehold	2008 / NA	4,620	11.4	10.8	11.2	1.8	91.7
5	Plaza Forte, Helsinki Metropolitan Area	Freehold	2002 / NA	6,054	13.8	12.9	12.6	2.0	86.9
6	Grandinkulma, Helsinki Metropolitan Area	Freehold	1984 / NA	6,189	12.5	12.8	12.5	3.5	98.4
7	Liiketalo Myyrinraitti, Helsinki Metropolitan Area	Freehold	1982 / NA	7,515	12.2	12.0	12.0	4.9	94.1
8	Pakkalan Kartanonkoski 3, Helsinki Metropolitan Area	Freehold	1991 / NA	7,796	9.2	10.6	9.7	3.2	77.2
9	Pakkalan Kartanonkoski 12, Helsinki Metropolitan Area	Freehold	2001 / NA	3,425	6.7	6.4	6.1	1.6	100.0
10	Purotie 1, Helsink	Freehold	1991 / NA	4,692	6.5	7.5	7.1	2.7	97.2
11	Mäkitorpantie 3, Helsinki	Freehold	1977 / 2013 - 2015	4,367	7.6	7.8	7.6	3.4	85.6
12	Opus 1, Helsinki	Freehold	2008 / NA	6,821	15.4	15.7	13.5	7.2	77.1
13	Kuopion Kauppakeskus, Kuopio	Freehold	1986 / NA	4,832	7.7	7.2	7.6	5.9	98.5
	Subtotal			**61,972**	**117.1**	**116.6**	**113.1**	**3.7****	**89.4****
	Poland								
15	Riverside, Warsaw	Freehold	2005 / NA	12,478	31.9	30.5	31.3	4.6	72.9
16	Grojecka 5, Warsaw	Freehold	2006 / NA	10,718	22.4	22.0	22.3	3.1	83.4
17	Arkonska Business Park, Gdansk	Freehold	2008 / NA	11,166	18.4	19.0	18.2	3.4	46.7 (67.1% committed)
	Subtotal			**34,362**	**72.7**	**71.5**	**71.8**	**3.7****	**67.7****
	Total Portfolio			**150,235**	**314.6**	**317.1**	**312.5**	**4.7**	**84.5**

** As at 31 August 2018*
*** Weighted average based on LFA*
Source: CERT, DBS Bank

Summary of "Italian Properties" Portfolio

No	Property	Land Tenure	LFA* (sqm)	Valuation by Colliers (EUR'm)	Purchase Price (EUR'm)	WALE* (years)	Occupancy rate* (%)
1	Corso Lungomare Trieste N.23, Bari	Freehold	11,674	12.3	12.3	4.33	100
2	Via Camillo Finocchiaro Aprile N.1, Genova	Freehold	15,537	25.2	25.2	5.34	100
	Total/Average		**27,211**	**37.5**	**37.5**	**5.00**	**100**

** As at 30 September 2018*
Source: CERT, DBS Bank

Summary of "French Properties" Portfolio

No	Property	Land Tenure	LFA* (sqm)	Valuation by Colliers (EUR'm)	Purchase Price (EUR'm)	WALE* (years)	Occupancy rate* (%)
1	Gennevilliers	Leasehold with 27 years residual term	7,404	7.1	6.8	2.5	100
2	Sully-sur-Loire	Freehold	15,500	5.5	5.4	8.3	100
3	Parcay-Meslay	Freehold	5,494	5.9	5.5	3.1	100
4	Villeneuve-lès-Béziers	Freehold	8,944	10.4	10.5	0.1	100
	Total/Average		**37,342**	**28.9**	**28.2**	**4.4****	**100**

** As at 30 September 2018 ** Weighted average based on LFA*
Source: CERT, DBS Bank

Finland office market indicators - Helsinki

MARKET INDICATORS	
Market Outlook	
Prime Rents:	Positive rental development in multiple submarkets in the Helsinki Metropolitan Area (HMA) is visible in 2018.
Prime Yields:	Prime yields are expected to remain stable in the short term.
Supply:	During 2018 the supply remains stable.
Demand:	Strengthening of demand on the occupier side in the short term.

Source: Cushman & Wakefield Research

Helsinki Office Completions and Vacancy

Source: Cushman & Wakefield Research

Helsinki Office Prime Rent, Capital Growth and Yield

Source: Cushman & Wakefield Research

Netherlands office market indicators – Utrecht and Den Bosch

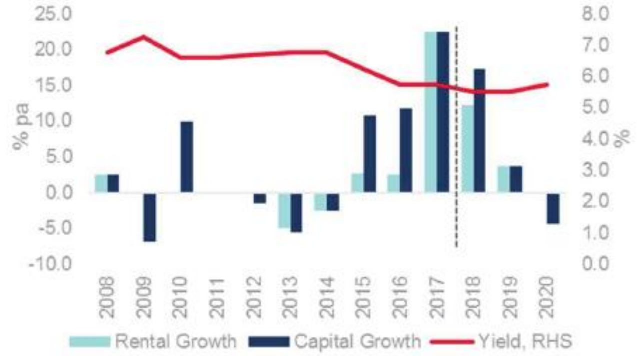
MARKET INDICATORS	
Market Outlook	
Prime Rents:	Rents are set to rise for the best offices in prime locations in both Utrecht and Den Bosch
Prime Yields:	Yields are set to stabilise across the Netherlands, including Den Bosch, but Utrecht may see further compression
Supply:	Low vacancy rates in both Utrecht and Den Bosch prime office areas. New development is scarce in Den Bosch.
Demand:	Utrecht is considered one of the most attractive cities for occupiers. Den Bosch take-up set to remain stable.

Source: Cushman & Wakefield Research

Utrecht Office Completions and Vacancy

Source: Cushman & Wakefield Research

Utrecht Office Prime Rent, Capital Growth and Yield



Source: Cushman & Wakefield Research

Den Bosch Office Completions and Vacancy

Source: Cushman & Wakefield Research

Den Bosch Office Prime Rent, Capital Growth and Yield

Source: Cushman & Wakefield Research

Poland office market indicators – Warsaw and Gdansk

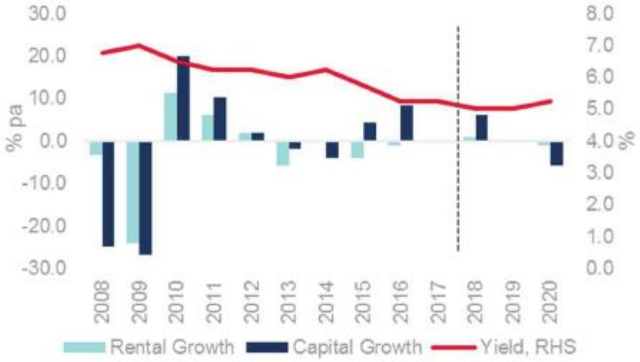
MARKET INDICATORS	
Market Outlook	
Prime Rents:	Upward pressure on effective rents in central locations. Other locations likely to remain at current levels
Prime Yields:	Downward pressure, both in Warsaw and in Regional cities, as investor appetite remains high
Supply:	Short term supply in Warsaw is tightening but medium term is high, stock in regional cities is growing dynamically.
Demand:	Stable, strong demand boosted by solid economic growth

Source: Cushman & Wakefield Research

Warsaw Office Completions and Vacancy

Source: Cushman & Wakefield Research

Warsaw Office Prime Rent, Capital Growth and Yield



Source: Cushman & Wakefield Research

Quarterly / Interim Income Statement (EURm)

FY Dec	3Q2018	4Q2018	% chg yoy	% chg qoq
Gross revenue	31.5	31.0	189.7	(1.5)
Property expenses	(10.0)	(10.1)	192.0	1.1
Net Property Income	21.5	20.9	188.6	(2.7)
Other Operating expenses	(1.8)	(2.1)	365.4	12.5
Other Non Opg (Exp)/Inc	0.07	(0.1)	(310.0)	(273.2)
Net Interest (Exp)/Inc	(2.7)	(3.1)	(256.3)	(13.4)
Exceptional Gain/(Loss)	0.0	0.0	-	-
Net Income	(2.7)	(3.2)	(258.1)	(21.1)
Tax	(4.7)	2.73	(152.3)	(158.4)
Minority Interest	0.0	0.0	-	-
Net Income after Tax	(7.3)	(0.5)	93.2	(93.4)
Total Return	12.2	24.2	nm	97.8
Non-tax deductible Items	4.88	(6.9)	(124.2)	(242.3)
Net Inc available for Dist.	17.1	17.2	167.6	0.8
Ratio (%)				
Net Prop Inc Margin	68.4	67.5		
Dist. Payout Ratio	100.0	100.0		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Exposure to favourable European property markets. While near-term growth expectations for the Eurozone have been revised downwards recently, the countries that CERT is exposed to are still expected to generate positive economic growth. More importantly, the property markets that CERT has invested in are expected to experience rising or stable rents with a large proportion of the properties expected to generate positive rental reversions.

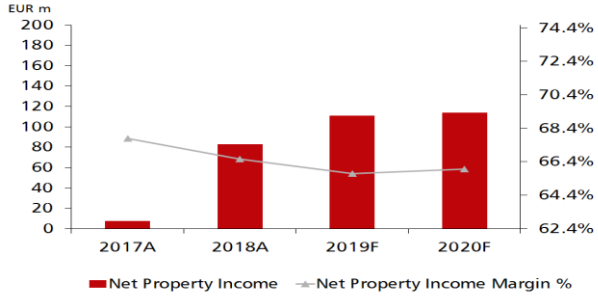
Predominantly freehold or ongoing leasehold properties. Approximately 90% of CERT's enlarged portfolio by appraised value comprises either freehold land or ongoing leasehold land which is classified as continuing leasehold or perpetual leasehold. We find this compares favourably with other Singapore REITs which predominantly hold properties with up to 99-year leases.

Long-dated lease expiry profile with diversified and high-quality tenant base. CERT's enlarged portfolio has a long weighted average lease expiry by headline rent based on the next permissible break date at the tenant's election (WALE) and weighted average lease to break (WALB) of 4.6 and 3.8 years respectively. The long WALE and WALB provides strong medium-term income visibility and stability for the REIT. This is further underpinned by having no more than 18% of leases expiring in each year up to FY21. Income stability is also attributed to a low tenant concentration risk with over 700 leases spread across various trade sectors and locations. No single trade sector or tenant make up more than 18% and 16% of total headline rent as at 31 December 2018 respectively.

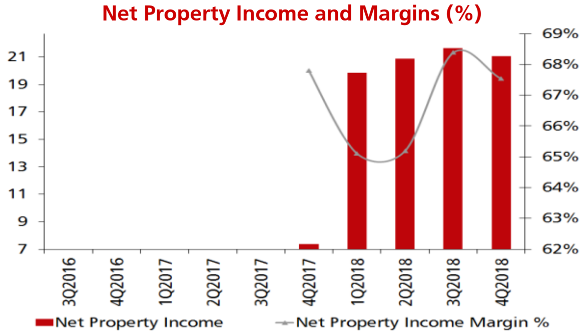
Embedded rental escalations. The majority of CERT's leases are linked to inflation or similar indices which not only provide a built-in rental growth mechanism but also act as a natural hedge against potential rate hikes driven by rising inflation.

Attractive European property yield spreads. On top of the improving macro fundamentals, European properties provide a compelling investment opportunity based on the attractive property yield spreads, in our view. Based on Cushman & Wakefield's data, the differential between European real estate yields and long-term government bond yields are near historic highs and above the historical 10-year average. The yield spread for light industrial and office currently stands at 7.3% and 4.2% respectively. In addition, the European real estate yield spread of 4.3% compares favourably to the 3.3%, 1.8% and 0.8% yield spreads on offer in the US, Singapore and Hong Kong respectively.

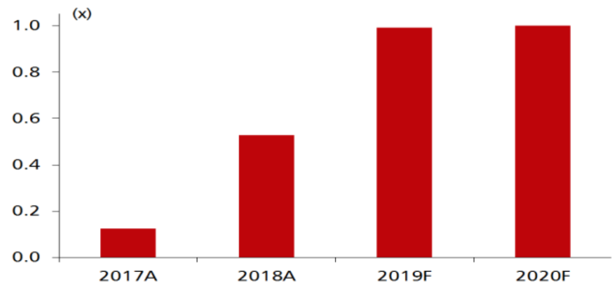
Net Property Income and Margins (%)



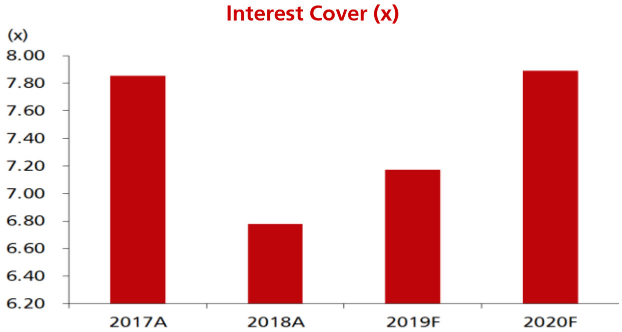
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing to stabilise at 36%. Following the recent acquisitions, we expect CERT's gearing to settle around 36% level which provides some modest debt headroom for future acquisitions.

Share Price Drivers:

Delivering on benefits from acquisition in late 2018. While CERT since listing has beaten its IPO forecast, following the reset of CERT's CPU post its recent rights issue which caused subsequent correction in its share price, we believe CERT would need to deliver strong DPU growth in FY19 to convince investors of the metrics of its acquisitions made last year.

Upside from acquisitions. An additional share price catalyst for CERT is acquisitions. This would provide upside to consensus DPU estimates. Our confidence in CERT being able to execute on its inorganic strategy is underpinned by its Sponsor, Cromwell Property Group's (CPG) track record of over 15 years in Europe and "on-the-ground" presence in various European markets. Furthermore, ARA Asset Management, a well-known real estate fund manager, taking a 19.5% interest in CPG also adds another layer of assurance over CPG's execution capability.

Key Risks:

Competition from other landlords. CERT could face competition from other buildings and may lose its tenants or be forced to lower rents to retain these tenants. Should this happen, the DPU CERT pays to its unitholders would be negatively impacted.

Lower-than-expected inflation rate. The majority of CERT's leases are linked to inflation or similar indices in various European countries. Should deflation or extremely low inflation occur, CERT may face limited growth in its rents and income.

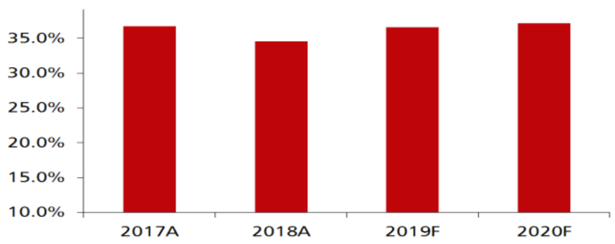
Interest rate risk. Any increase in interest rates will result in higher interest payments that CERT has to make annually to service its loans. Nevertheless, the risk is partially mitigated by c.87% of CERT's debts expected to be on fixed rates post the final drawdown debt to fund CERT's recent acquisitions.

Changes in tax regime. Any changes in the tax regime could negatively impact CERT's distributions.

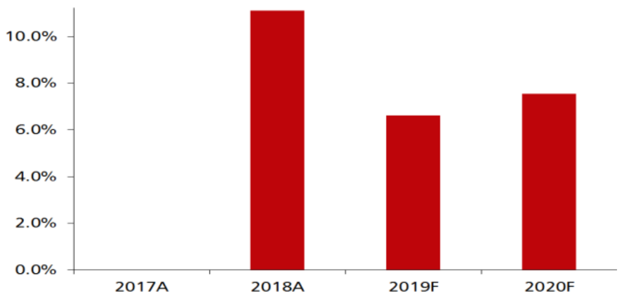
Company Background

Cromwell European REIT (CERT) is the first Singapore-listed REIT with a Pan-European portfolio and offers a unique opportunity to invest in 97 office, light industrial/logistics and retail assets located in Denmark, Finland, Germany, France, Italy, the Netherlands and Poland.

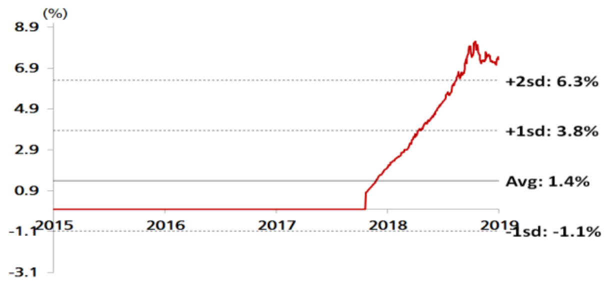
Aggregate Leverage (%)



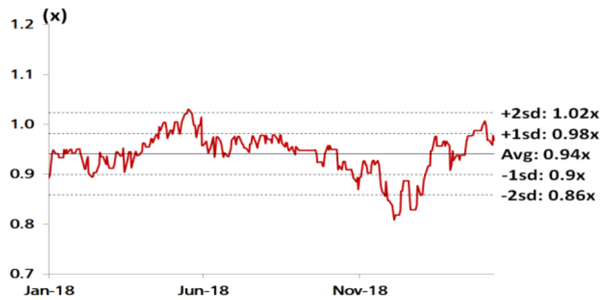
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (EURm)

FY Dec	2017A*	2018A	2019F	2020F
Gross revenue	10.7	125	169	173
Property expenses	(3.5)	(41.7)	(58.0)	(58.9)
Net Property Income	7.25	82.9	111	114
Other Operating expenses	(0.4)	(8.0)	(16.4)	(8.9)
Other Non Opg (Exp)/Inc	0.0	(0.3)	0.0	0.0
Net Interest (Exp)/Inc	(0.9)	(11.1)	(13.2)	(13.3)
Exceptional Gain/(Loss)	(23.0)	60.1	0.0	0.0
Net Income	(17.1)	124	81.4	91.9
Tax	(5.2)	(15.7)	(7.4)	(7.6)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
Net Income After Tax	(22.3)	108	74.0	84.3
Total Return	(22.3)	108	74.0	84.3
Non-tax deductible Items	28.7	(40.1)	17.5	9.97
Net Inc available for Dist.	6.43	67.9	91.5	94.2
Growth & Ratio				
Revenue Gth (%)	N/A	1,064.6	35.7	2.4
N Property Inc Gth (%)	nm	1,043.3	33.9	2.8
Net Inc Gth (%)	nm	nm	(31.5)	13.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	67.8	66.6	65.7	65.9
Net Income Margins (%)	(208.4)	86.7	43.8	48.7
Dist to revenue (%)	60.1	54.5	54.1	54.5
Managers & Trustee's fees	4.1	6.4	9.7	5.2
ROAE (%)	(5.4)	11.1	6.6	7.5
ROA (%)	(3.2)	6.7	4.0	4.4
ROCE (%)	1.0	4.3	4.8	5.3
Int. Cover (x)	7.9	6.8	7.2	7.9

Boost from acquisitions made in 2018

** 30 November 2017 to 31 December 2017*
Source: Company, DBS Bank

Quarterly / Interim Income Statement (EURm)

FY Dec	1Q2018	2Q2018	3Q2018	4Q2018
Gross revenue	30.3	31.8	31.5	31.0
Property expenses	(10.6)	(11.1)	(10.0)	(10.1)
Net Property Income	19.8	20.7	21.5	20.9
Other Operating expenses	(1.8)	(2.3)	(1.8)	(2.1)
Other Non Opg (Exp)/Inc	(0.2)	0.0	0.07	(0.1)
Net Interest (Exp)/Inc	(2.9)	(2.4)	(2.7)	(3.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Net Income	**(3.1)**	**(2.4)**	**(2.7)**	**(3.2)**
Tax	(10.6)	(3.2)	(4.7)	2.73
Minority Interest	0.0	0.0	0.0	0.0
Net Income after Tax	**(13.7)**	**(5.6)**	**(7.3)**	**(0.5)**
Total Return	53.0	18.7	12.2	24.2
Non-tax deductible Items	(36.6)	(1.4)	4.88	(6.9)
Net Inc available for Dist.	16.4	17.3	17.1	17.2
Growth & Ratio				
Revenue Gth (%)	184	5	(1)	(1)
N Property Inc Gth (%)	172	5	4	(3)
Net Inc Gth (%)	93	(60)	32	(93)
Net Prop Inc Margin (%)	65.1	65.2	68.4	67.5
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0

Balance Sheet (EURm)

FY Dec	2017A	2018A	2019F	2020F
Investment Properties	1,289	1,690	1,807	1,825
Other LT Assets	10.6	16.9	16.9	16.9
Cash & ST Invts	74.2	57.8	17.8	17.7
Inventory	0.0	0.0	0.0	0.0
Debtors	26.0	49.7	51.2	52.4
Other Current Assets	0.0	0.0	0.0	0.0
Total Assets	**1,400**	**1,815**	**1,893**	**1,912**
ST Debt	0.0	0.0	0.0	0.0
Creditor	49.7	43.6	45.7	46.8
Other Current Liab	23.8	33.3	33.3	33.3
LT Debt	481	592	668	686
Other LT Liabilities	19.4	27.5	27.5	27.5
Unit holders' funds	826	1,119	1,119	1,119
Minority Interests	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**1,400**	**1,815**	**1,893**	**1,912**
Non-Cash Wkg. Capital	(47.5)	(27.1)	(27.8)	(27.6)
Net Cash/(Debt)	(407)	(534)	(650)	(668)
Ratio				
Current Ratio (x)	1.4	1.4	0.9	0.9
Quick Ratio (x)	1.4	1.4	0.9	0.9
Aggregate Leverage (%)	36.7	34.5	36.5	37.2

Higher gearing once remaining properties from the announced acquisitions in late 2018 are completed

Source: Company, DBS Bank

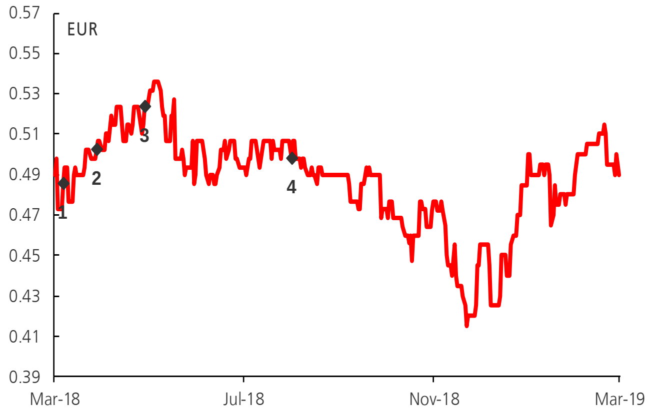
Cash Flow Statement (EURm)

FY Dec	2017A	2018A	2019F	2020F
Pre-Tax Income	5.91	69.5	81.4	91.9
Dep. & Amort.	0.0	0.0	0.0	0.0
Tax Paid	(5.2)	(20.9)	(7.4)	(7.6)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	22.1	(10.1)	0.62	(0.1)
Other Operating CF	28.7	37.1	17.5	9.97
Net Operating CF	**51.5**	**75.6**	**92.1**	**94.1**
Net Invt in Properties	(2.2)	(1,074)	(117)	(18.1)
Other Invts (net)	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0
Other Investing CF	0.0	(46.6)	0.0	0.0
Net Investing CF	**(2.2)**	**(1,121)**	**(117)**	**(18.1)**
Distribution Paid	(6.4)	(39.9)	(91.5)	(94.2)
Chg in Gross Debt	2.17	177	76.3	18.1
New units issued	0.0	963	0.0	0.0
Other Financing CF	0.0	(8.7)	0.0	0.0
Net Financing CF	**(4.3)**	**1,090**	**(15.2)**	**(76.2)**
Currency Adjustments	0.0	0.0	0.0	0.0
Chg in Cash	45.1	45.0	(39.9)	(0.1)
Operating CFPS (Euro cts.)	1.87	4.56	4.16	4.23
Free CFPS (Euro cts.)	3.13	(53.2)	(1.1)	3.42

Includes 38-for-100 rights issue raising c.EUR224m

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating	Analyst
1	19 Mar 18	0.49	0.53	BUY	Mervin SONG, CFA
2	10 Apr 18	0.50	0.53	BUY	Mervin SONG, CFA
3	11 May 18	0.52	0.56	BUY	Mervin SONG, CFA
4	14 Aug 18	0.50	0.66	BUY	Mervin SONG, CFA

Source: DBS Bank

Analyst: Mervin SONG, CFA
Derek TAN

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 15 Mar 2019 08:25:34 (SGT)
Dissemination Date: 15 Mar 2019 09:06:01 (SGT)

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