

Company EfTEN Real Estate Fund AS  
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Attachments:

- EfTENReal-10003186691-en.pdf (<http://oam.fi.ee/en/download?id=4336>)
- EfTENReal-10003186693-et.pdf (<http://oam.fi.ee/en/download?id=4337>)

Currency

Title EfTEN Real Estate Fund III AS unaudited consolidated interim accounts for the 4th quarter and

Comment of the fund manager

The most important economic events of EfTEN Real Estate Fund III AS in 2019 were the ABC Motors dealership purchase-leaseback transaction, successful issue of shares in volume of EUR 16 million and opening of Hortes Tāhesaju Gardening Center in the fourth quarter. After the balance sheet date, we announced that in the first quarter of 2020 EfTEN Real Estate Fund III will acquire Latvian national airline, airBaltic's headquarters in Riga Airport and a production and warehouse facility in the Kekava near Riga, thereby investing a significant amount of its equity raised in 2019 into cash-generating real estate. In addition, the fund's management proposes to the 2020 general meeting of shareholders to approve the merger with EfTEN Kinnisvarafond AS, which will result in a real estate fund of approximately EUR 350 million.

The Group's cash balance allows dividends to be paid from the 2019 profit to investors in a total amount of EUR 3,465 million (82 cents per share), which is 35% more than determined by the dividend policy of EfTEN Real Estate Fund III. The dividend pay-out from the year 2019 profit will proceed after the general shareholders' meeting in spring 2020.

Financial overview

The consolidated sales revenue of EfTEN Real Estate Fund III AS for 12 months of 2019 was EUR 9,512 million (12 months of 2018: EUR 8,672 million), which increased by 10% in a year. The Group's profit before revaluation of investment properties, cost of performance fee, depreciation and financial income/-costs and income tax expense in 2019 totalled EUR 7,571 million (2018: 6,822 million euros), which increased by 11% in a year. The Group's net profit for the same period amounted to EUR 7,737 million (12 months of 2018: EUR 6,299 million). The higher net profit in 2019 is due to additional property profit and higher



investment property revaluation profit, which in the current year was EUR 3,101 million, but EUR 1,562 million last year.

The consolidated gross profit margin in the 12 months of 2019 was 97% (12 months of 2018: 96%). Therefore, expenses directly related to management of properties (incl. land tax, insurance, maintenance and improvement costs) accounted for 3% (12 months of 2018: 4%) of the revenue. The Group's expenses related to properties, marketing costs, general expenses, other income and expenses accounted for 22% of the revenue in 2019. The respective indicator was 22.3% in the 12 months of 2018.

As at 31.12.2019, the Group's total assets were in the amount of EUR 132,829 million (31.12.2018: 108,503 million), including fair value of investment property, which accounted for 85% (31.12.2018: 95%) of the total assets.

During 2019, the net asset value of the share of EftEN Real Estate Fund III AS increased by 7.6%. From the 2018 profit, EUR 3,061 million (in spring 2018: EUR 2.191 million) was paid out in dividends in May 2019. Without the dividend payment, the Fund's NAV would have increased by 12% in 2019. Return on invested capital (ROIC) was 17.1% in the 2019 financial year (12 months of 2018: 17.6%).

Access to flexible financing conditions will help to increase the Group's competitiveness. In 2019, the Group entered into new loan contracts in the total amount of EUR 6,768 million in connection with the acquisition of new investment properties. As at the end December, the average interest rate on Group's loan agreements (including interest swap contracts) was 1.8% (31.12.2018: the same) and the LTV (Loan to Value) ratio was 52% (31.12.2018: the same).

During 2019, the Group earned a free cash flow of EUR 3,381 million (12 months of 2018: EUR 3,197 million). Following the deduction of Lithuanian income tax expense and the calculation of the dividend income tax expense in Estonian and Latvian companies, EftEN Real Estate Fund III would be able to pay net dividends to the shareholders in the total amount of EUR 2,545 million (60 cents per share) from the profit earned in this year. However, the Group's cash balance at the end of 2018 allows to pay more dividends than the dividend policy establishes, which is why the Management Board of the Fund proposes to the Council in the spring of 2019 to pay a dividend of EUR 3,465 million (82 cents per share). For the entire previous year, the fund paid the shareholders a net dividend of 95 cents per share.

#### Real estate portfolio

The Group invests in commercial real estate with a strong and long-term tenant base. At the end of 2019, the Group had 11 (31.12.2018: 10) commercial investment properties with a fair value as at the balance sheet date of EUR 113.011 million (31.12.2018: EUR 102.787 million) and acquisition cost of EUR 101.746 million (31.12.2018: EUR 94.627 million).

On the 6th of February 2019, the Group's subsidiary EftEN Autokeskus OÜ acquired



the properties of ABC Motor's sales and service center on Paldiski highway. The acquisition cost of the properties was EUR 3,018 million and a loan agreement was entered into in the amount of EUR 1.8 million for the acquisition. The maturity of the loan is 25.02.2024 and the interest rate is 2.95% + 6 month Euribor. A 0% floor is set for the Euribor rate. The expected annual rental income from the investment property is EUR 258 thousand.

In november of 2019 the subsidiary of the Group, EFTEN Tähesaju tee OÜ, completed the construction of Tähesaju Hortses in Tallinn. Tähesaju Hortses was opened to visitors in early November. The acquisition cost of the horticultural center totaled EUR 5,458 million and the fair value of the investment property as at 31.12.2019 was EUR 6,180 thousand. For the construction of Tähesaju Hortses, the Group subsidiary took a bank loan in amount of EUR 3.29 million at an interest rate of 1.95% + 1 month EURIBOR. The maturity of the loan is 11.01.2024.

After the balance sheet date, on January 13, 2020, a subsidiary of the Group signed debt-purchase agreements for the acquisition of two commercial buildings in Latvia to acquire the airBaltic headquarters office building at Riga Airport and a production and warehouse facility in Ķekava, Riga. AirBaltic's main building was completely renovated in 2016 and the current lease agreement expires in 2026. The major tenants of the production and warehouse building in Ķekava are Fristads Kansas Production SIA and Forans SIA. The acquisition of the two buildings totals to EUR 15.8 million, of which EUR 7.2 million is financed by Swedbank and Luminor.

#### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	4th quarter		12 months	
	2019	2018	2019	2018
EUR thousands				
Revenue	2,512	2,329	9,512	8,672
Cost of services sold	-100	-135	-329	-319
Gross profit	2,412	2,194	9,183	8,353
Marketing costs	-126	-103	-429	-435
General and administrative expenses	-870	-389	-1,847	-1,225
Gain / loss from revaluation of investment properties	1,641	600	3,101	1,562



Other operating income and expense	38	-4	37	3
Operating profit	3,095	2,298	10,045	8,258
Interest income	0	0	14	0
Finance costs	-161	-380	-1,197	-1,096
Profit before income tax	2,934	1,918	8,862	7,162
Income tax expense	-333	-167	-1,125	-863
Total comprehensive income for the financial period	2,601	1,751	7,737	6,299
Earnings per share				
- Basic	0.62	0.54	2.05	1.96
- Diluted	0.62	0.54	2.05	1.96

#### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31.12.2019	31.12.2018
EUR, thousands		
ASSETS		
Cash and cash equivalents	12,986	4,859
Short - term deposits	6,000	0
Receivables and accrued income	667	673
Prepaid expenses	51	46
Total current assets	19,704	5,578
Long-term receivables	0	24



Investment property	113,011	102,787
Property, plant and equipment	114	114
Total non-current assets	113,125	102,925
TOTAL ASSETS	132,829	108,503
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LIABILITIES AND EQUITY		
Borrowings	21,147	8,105
Derivative instruments	271	189
Payables and prepayments	1,132	1,019
Total current liabilities	22,550	9,313
Borrowings	34,225	44,743
Other long-term liabilities	609	457
Deferred income tax liability	4,274	3,496
Total non-current liabilities	39,108	48,696
Total liabilities	61,658	58,009
Share capital	42,225	32,225
Share premium	9,658	3,658
Statutory reserve capital	936	621
Retained earnings	18,352	13,990
Total equity	71,171	50,494
TOTAL LIABILITIES AND EQUITY	132,829	108,503

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