

Company Baltic Horizon Fund / Northern Horizon Capital AS

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Attachments:

- BalticHori-10004013721-en.pdf (<http://oam.fi.ee/en/download?id=4798>)
- BalticHori-10004013722-en.pdf (<http://oam.fi.ee/en/download?id=4799>)
- BalticHori-10004013724-et.pdf (<http://oam.fi.ee/en/download?id=4800>)
- BalticHori-10004013725-et.pdf (<http://oam.fi.ee/en/download?id=4801>)

Currency

Title Baltic Horizon Fund Consolidated Unaudited Interim Results for H1 2020

Management Board of Northern Horizon Capital AS (the Management Company) has approved the unaudited consolidated interim financial statements of Baltic Horizon Fund (the Fund) for the first six months of 2020.

Impact of COVID-19 pandemic

At the beginning of 2020, a new coronavirus (COVID-19) started spreading all over the world, which has had an impact on businesses and economies, including in the Baltics.

It is evident that the operating results of Q2 2020 and property valuations were affected by the COVID-19 effects on the tenants' financial performance and relief measures taken to deal with the pandemic. However based on the currently available information, the Management Company believes that the COVID-19 pandemic should rather have a temporary effect on the Fund's results and less than was previously expected. Broad portfolio diversification should allow the Fund to limit the COVID-19 impact on the whole portfolio and maintain healthy consolidated operational performance.

The Fund has opted to retain approx. EUR 2.7 million of distributable cash flow for H1 2020 results to strengthen the Fund's financial position. Over the past two quarters, the Fund has increased its cash distribution reserve to EUR 3.5 million. The Management Company believes that it is in the best interest of the investors and the Fund to reduce its cash distribution at this time in order to protect and strengthen the Fund's financial position. The management team will continue to actively monitor the economic impact of the pandemic and reassess future distribution levels depending on the upcoming operating results.

On 27 July 2020, S&P Global Ratings affirmed Baltic Horizon Fund "MM3" mid-market rating and removed the Fund from CreditWatch with negative implications,



where the Fund was placed on 7 May 2020. The indicative corresponding rating for "MM3" on the global rating scale is "BB+/ BB".

In summary, it may be concluded that the COVID virus induced lockdown in the Baltics has impacted mainly Baltic Horizon's centrally located retail and entertainment centres, more specifically increasing their vacancies to approximately 15%. Retail assets located in the central business districts (Postimaja, Europa and Galerija Centrs) accounted for 31.5% of total portfolio NOI in H1 2020. Overall, the portfolio has remained resilient to the crisis and the total negative effect on the portfolio NOI for the year of 2020 is not expected to exceed 10%.

#### Distributions to unitholders for Q1 2020 and Q2 2020 Fund results

On 24 April 2020, the Fund declared a cash distribution of EUR 1,701 thousand (EUR 0.015 per unit) to the Fund unitholders for Q1 2020 results. This represents a 1.12% return on the weighted average Q1 2020 net asset value to its unitholders.

On 24 July 2020, the Fund declared a cash distribution of EUR 1,701 thousand (EUR 0.015 per unit) to the Fund unitholders for Q2 2020 results. This represents a 1.14% return on the weighted average Q2 2020 net asset value to its unitholders.

#### Dividend capacity calculation

The Fund reduced cash distribution for Q1-Q2 2020 due to COVID-19 outbreak. Generated net cash flow (GNCF) for Q1-Q2 2020 reached EUR 0.054 per unit.

EUR '000	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
(+) Net rental income	4,256	5,412	5,635	5,772	4,618
(-) Fund administrative expenses	(817)	(879)	(846)	(889)	(634)
(-) External interest expenses	(1,043)	(1,295)	(1,346)	(1,331)	(1,327)
(-) CAPEX expenditure(1)	(180)	(178)	(225)	(95)	(97)
(+) Added back listing related expenses	51	60	-	39	29
(+) Added back acquisition related expenses	39	16	-	-	-
Generated net cash flow (GNCF)	2,306	3,136	3,218	3,496	2,589
GNCF per weighted unit (EUR)	0.024	0.031	0.029	0.031	0.023
12-months rolling GNCF yield(2 ) (%)	7.8%	8.4%	8.6%	11.5%	9.6%



Dividends declared for the period	2,624	3,061	3,175	1,701	1,701
Dividends declared per unit(3 )(EUR)	0.026	0.027	0.028	0.015	0.015
12-months rolling dividend yield(2 )(% )	7.5%	7.8%	8.0%	9.6%	7.2%

1. The table provides actual capital expenditures for the quarter. Future dividend distributions to unitholders are aimed to be based on the annual budgeted capital expenditure plans equalised for each quarter. This will reduce the quarterly volatility of cash distributions to unitholders.
2. 12-month rolling GNCF and dividend yields are based on the closing market price of the unit as at the end of the quarter (Q2 2020: closing market price of the unit as of 30 June 2020).
3. Based on the number of units entitled to dividends.

#### Net profit and net rental income

In H1 2020, the Group recorded a net loss of EUR 9.5 million against a net profit of EUR 2.3 million for H1 2019. The net result was significantly impacted by the one-off negative valuation result of EUR 15.8 million during H1 2020. The negative impact of valuation losses on investment properties was partially offset by an increase in net rental income, other operating income and a slight decrease in administrative expenses. Excluding the valuation impact on the net result, the net profit for H1 2020 would have amounted to EUR 6.3 million (H1 2019: EUR 4.8 million). Earnings per unit for H1 2020 were negative at EUR 0.08 (H1 2019: positive EUR 0.03). Earnings per unit excluding valuation gains/losses on the investment properties amounted to EUR 0.06 (H1 2019: EUR 0.05).

In H1 2020, the Group earned net rental income of EUR 10.4 million exceeding the previous year's net rental income for the same period by EUR 2.2 million (H1 2019: 8.2 million). The increase was achieved through new acquisitions that were made following the capital raisings in 2019. The acquisition of Galerija Centrs and North Star had a significant effect on the Group's net rental income growth in H1 2020 as compared to H1 2019, albeit rental income growth in Q2 2020 was slower due to relief measures granted to tenants during the COVID-19 pandemic. The addition of Galerija Centrs added EUR 1.8 million to the net rental income for H1 2020, while North Star added EUR 0.7 million.

On an EPRA like-for-like basis, portfolio net rental income decreased by 3.8% year on year mainly due to weaker performance in retail and leisure segments. The decrease was partially offset by the strong performance of the office segment which remained largely unaffected by the lockdown in the Baltic States.



Portfolio properties in the office segment contributed 54.1% (H1 2019: 56.0%) of net rental income in H1 2020 followed by the retail segment with 41.9% (H1 2019: 37.8%) and the leisure segment with 4.0% (H1 2019: 6.2%).

Retail assets located in the central business districts (Postimaja, Europa and Galerija Centrs) accounted for 31.5% of total portfolio net rental income in H1 2020. Total net rental income attributable to neighbourhood shopping centres accounted for 10.4% in H1 2020.

During H1 2020, investment properties in Latvia and Lithuania contributed 40.0% (H1 2019: 30.7%) and 33.7% (H1 2019: 38.5%) of net rental income respectively, while investment properties in Estonia contributed 26.3% (H1 2019: 30.8%).

#### Gross Asset Value (GAV)

At the end of H1 2020, the GAV decreased to EUR 356.8 million (31 December 2019: EUR 371.7 million) which was a drop of 4.0% over the period. The decrease is mainly related to the negative property revaluation of EUR 15.8 million or 3.7% of the portfolio value at the end of 2019. The Group made a small capital investment (EUR 0.1 million) in the Meraki office building development project during Q2 2020. The Fund aims to continue the construction of the Meraki office building throughout 2020 once the extent of the potential impact of the COVID-19 pandemic becomes clearer. The Management Company will continue to actively monitor the economic impact of the pandemic and ensure sufficient liquidity levels during the construction period.

#### Net Asset Value (NAV)

At the end of June 2020, the Fund net asset value (NAV) decreased to EUR 138.0 million (31 December 2019: EUR 152.5 million) as a result of negative portfolio revaluation which was impacted by the high market uncertainty surrounding the COVID-19 pandemic. Compared to the year-end 2019 NAV, the Fund's NAV decreased by 9.5%. Eliminating the impact of valuations, the NAV at the end of H1 2020 would have been EUR 153.7 million or EUR 1.3558 per unit. Positive operational performance over the period was offset by EUR 4.9 million dividend distributions to the unitholders and a negative cash flow hedge reserve movement of EUR 0.2 million. At 30 June 2020, NAV per unit stood at EUR 1.2169 (31 December 2019: EUR 1.3451), while NAV per unit based on EPRA standards was EUR 1.3044 (31 December 2019: EUR 1.4333).

#### Investment properties

The Baltic Horizon Fund portfolio consists of 15 cash flow investment properties in the Baltic capitals and investment property under construction on the Meraki land plot. At the end of Q2 2020, the appraised value of the Fund's portfolio was EUR 345.5 million (31 December 2019: EUR 358.9 million) and incorporated a total net leasable area of 153,351 sq. m.

The valuation losses on the property portfolio came to EUR 15.8 million during H1 2020 (H1 2019: EUR 2.4 million). Valuations were negatively affected primarily due to downward adjustments to valuation assumptions resulting from the uncertainty associated with the COVID-19 pandemic. Due to global market



uncertainty caused by the virus, valuations were reported on the basis of "material valuation uncertainty". During Q2 2020, the Group invested EUR 0.1 million in the existing property portfolio and an additional EUR 0.1 million in the Meraki development project.

#### Interest bearing loans and bonds

Interest bearing loans and bonds (excluding lease liabilities) remained at a similar level of EUR 205.7 million compared to year-end 2019 figures (31 December 2019: EUR 205.8 million). Outstanding bank loans decreased slightly due to regular bank loan amortization. Annual loan amortization forms 0.2% of total debt outstanding.

#### Financial covenants for bonds

Covenant	Requirement	Ratio 30.09.2019	Ratio 31.12.2019	Ratio 31.03.2020	Ratio 30.06.2020
Equity Ratio	>25%(1)/35.0%	40.5%	42.6%	42.4%	40.0%
Debt Service Coverage Ratio	> 1.20	3.39	3.32	3.35	3.30

1. On 28 July, the bondholders adopted the decision by the way of written procedure to temporarily reduce the equity ratio bond covenant to 25% or greater, until 31 July 2021

#### Cash flow

Cash inflow from core operating activities for H1 2020 amounted to EUR 6.7 million (H1 2019: cash inflow of EUR 6.2 million). Cash outflow from investing activities was EUR 1.7 million (H1 2019: cash outflow of EUR 52.3 million) due to subsequent capital expenditure on existing portfolio properties and investments in the Meraki development project. Cash outflow from financing activities was EUR 7.8 million (H1 2019: cash inflow of EUR 38.8 million). During H1 2020, the Fund made two cash distributions of EUR 4.9 million and paid regular interest on bank loans and bonds. At the end of H1 2020, the Fund had a sufficient amount of cash (EUR 7.1 million) to cover its liquidity needs amid the COVID-19 pandemic.

#### Key earnings figures

EUR '000	Q2 2020	Q2 2019	Change (%)
Net rental income	4,618	4,256	8.5%
Administrative expenses	(634)	(817)	(22.4%)
Other operating income	178	-	-



Valuation losses on investment properties	(15,749)	(2,439)	545.7%
Operating (loss) profit	(11,587)	1,000	(1,258.7%)
Net financing costs	(1,372)	(1,076)	27.5%
Loss before tax	(12,959)	(76)	16,951.3%
Income tax	149	220	(32.3%)
Net (loss) profit for the period	(12,810)	144	(8,995.8%)
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Weighted average number of units outstanding (units)	113,387,525	94,949,766	19.4%
Earnings per unit (EUR)	(0.11)	0.00	-
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#### Key financial position figures

EUR '000	30.06.2020	31.12.2019	Change (%)
Investment properties in use	342,267	356,575	(4.0%)
Investment property under construction	3,274	2,367	38.3%
Gross asset value (GAV)	356,751	371,734	(4.0%)
Interest bearing loans and bonds	205,712	205,827	(0.1%)
Total liabilities	218,774	219,216	(0.2%)
Net asset value (NAV)	137,977	152,518	(9.5%)



Number of units outstanding (units)	113,387,525	113,387,525	-
IFRS Net asset value (IFRS NAV) per unit (EUR)	1.2169	1.3451	(9.5%)
EPRA Net reinvestment value (EPRA NRV) per unit (EUR)	1.3044	1.4333	(9.0%)
EPRA Net tangible assets (EPRA NTA) per unit (EUR)	1.3044	1.4333	(9.0%)
EPRA Net disposal value (EPRA NDV) per unit (EUR)	1.2179	1.3400	(9.1%)
EPRA Net asset value (EPRA NAV) per unit (EUR)	1.3044	1.4333	(9.0%)
Loan-to-Value ratio (%)	59.5%	57.3%	-
Average effective interest rate (%)	2.6%	2.6%	-

#### Property performance

During Q2 2020, the average actual occupancy of the portfolio was 96.4% (Q1 2020: 97.6%). Taking into account Duetto I and Duetto II rental guarantees, the effective occupancy rate was 96.4% (Q1 2020: 97.6%). The occupancy rate as of 30 June 2020 was 96.0% (31 March 2020: 97.4%). Although the COVID-19 pandemic had a negative impact on the occupancy rate of the portfolio as a result of some smaller tenants vacating retail premises, the Fund's tenant base still remains strong. Occupancy rates in the office segment remain at record levels with almost fully occupied premises throughout all Baltic countries (99.9% occupancy).

The average direct property yield during Q2 2020 was 5.3% (Q1 2020: 6.7%). The net initial yield for the whole portfolio for Q2 2020 was 5.2% (Q1 2020: 6.5%). Property yields across the leisure and retail segments took the biggest hit mainly due to the COVID-19 incentives, while the office segment continued to perform well and remained largely unaffected. The average rental rate for the whole portfolio for Q2 2020 was EUR 11.2 per sq. m.

Property name	Sector	Fair	Direct property	Net initial yield	Occupancy
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		value(1) (EUR '000)	NLA (sq. m.)	yield Q2 2020(2)	Q2 2020(3)	rate for Q2 2020
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Vilnius, Lithuania						
Duetto I	Office	16,250	8,587	8.0%	7.3%	100.0%
Duetto II	Office	18,665	8,674	7.4%	7.2%	100.0%
Europa SC	Retail	39,691	16,856	1.9%	1.8%	92.8%
Domus Pro Retail Park	Retail	16,170	11,247	5.8%	5.5%	97.6%
Domus Pro Office	Office	7,590	4,831	7.3%	6.1%	100.0%
North Star	Office	19,743	10,550	6.6%	6.8%	100.0%
Meraki Development		3,274	-	-	-	-
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Total Vilnius		121,383	60,745	5.3%	5.0%	97.5%
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Riga, Latvia						
Upmalas Biroji BC	Office	23,001	10,458	7.3%	7.3%	100.0%
Vainodes I	Office	20,830	8,052	6.9%	7.0%	100.0%
LNK Centre	Office	16,490	7,453	6.3%	6.4%	100.0%
Sky SC	Retail	4,960	3,254	7.8%	8.1%	98.4%
Galerija Centrs	Retail	71,277	20,022	3.6%	3.6%	86.9%
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Total Riga		136,558	49,239	5.2%	5.3%	94.6%
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Tallinn, Estonia						
Postimaja & CC Plaza complex	Retail	30,550	9,145	3.7%	4.0%	95.6%
Postimaja & CC Plaza complex	Leisure	14,250	8,664	4.9%	3.8%	100.0%





G4S Headquarters	Office	16,790	9,179	7.9%	7.1%	100.0%
Lincona	Office	16,470	10,871	8.0%	7.2%	99.4%
Pirita SC	Retail	9,540	5,508	5.7%	7.2%	83.4%
Total Tallinn		87,600	43,367	5.6%	5.5%	96.8%
Total portfolio		345,541	153,351	5.3%	5.2%	96.4%

1. Based on the latest valuation as at 30 June 2020 and recognised right-of-use assets.
2. Direct property yield (DPY) is calculated by dividing NOI by the acquisition value and subsequent capital expenditure of the property.
3. The net initial yield (NIY) is calculated by dividing NOI by the market value of the property.

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

EUR '000	01.04.2020-30.06.2020	01.04.2019-30.06.2019	01.01.2020-30.06.2020	01.01.2019-30.06.2019
Rental income 8,797	5,073	4,646	11,282	
Service charge income 1,652	1,148	889	2,504	
Cost of rental activities (2,277)	(1,603)	(1,279)	(3,396)	
Net rental income 8,172	4,618	4,256	10,390	
Administrative expenses (1,526)	(634)	(817)	(1,523)	



Operating (loss) profit 4,213	(11,587)	1,000	(6,700)
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Financial income 3	1	1	2
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Financial expenses (1,976)	(1,373)	(1,077)	(2,750)
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Net financing costs (1,973)	(1,372)	(1,076)	(2,748)
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(Loss) profit before tax 2,240	(12,959)	(76)	(9,448)
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Income tax charge 77	149	220	(8)
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(Loss) profit for the period 2,317	(12,810)	144	(9,456)
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Other comprehensive income that is or may be reclassified to profit or loss in subsequent periods

Net losses on cash flow hedges (1,092)	(46)	(536)	(224)
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periods	(44)	(497)	(209)
(1,017)			

Total comprehensive (expense) income for the period, net of tax	(12,854)	(353)	(9,665)
1,300			

Basic and diluted earnings per unit (EUR)	(0.11)	0.00	(0.08)
0.03			

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR '000	30.06.2020	31.12.2019
Non-current assets		
Investment properties	342,267	356,575
Investment property under construction	3,274	2,367
Derivative financial instruments	6	73
Other non-current assets	54	54
Total non-current assets	345,601	359,069
Current assets		
Trade and other receivables	3,166	1,794



Total current assets	11,150	12,665
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Total assets	356,751	371,734
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Equity		
Paid in capital	138,064	138,064
Cash flow hedge reserve	(1,765)	(1,556)
Retained earnings	1,678	16,010
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Total equity	137,977	152,518
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Non-current liabilities		
Interest bearing loans and borrowings	205,604	205,718
Deferred tax liabilities	6,011	6,199
Derivative financial instruments	1,885	1,728
Other non-current liabilities	1,165	1,298
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Total non-current liabilities	214,665	214,943
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Current liabilities		
Interest bearing loans and borrowings	405	414
Trade and other payables	2,886	3,171
Income tax payable	181	8
Other current liabilities	637	680
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Total current liabilities	4,109	4,273
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Total liabilities	218,774	219,216
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Total equity and liabilities	356,751	371,734
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The Fund is a registered contractual public closed-end real estate fund that is managed by Alternative Investment Fund Manager license holder Northern Horizon Capital AS. Both the Fund and the Management Company are supervised by the Estonian Financial Supervision Authority.

This announcement contains information that the Management Company is obliged to disclose pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the above distributors, at 22:24 EET on 7 August 2020.

