

Company EfTEN Real Estate Fund AS
Type Company Release
Category Management interim statement or quaterly financial report
Disclosure time 16 Feb 2021 08:30:00 +0200

Currency

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

Comment of the fund manager

The main economic event of 2020 was not an economic event - unexpected arrival and spread of coronavirus. The virus wave that reached the Baltics in February 2020, closed the economy and put a significant strain on the fund's cash flows but only in short term. The fund's management found temporary solutions with the tenants, which usually resulted in a temporary rent discount for 3-4 months and an equivalent extension of the lease period.

The second wave of virus, which started in the fall was significantly worse in medical terms compared to the outbreak in spring, however, the companies had a much calmer attitude towards the second wave compared to the first wave. Coronavirus will definitely have an effect to fund's cash flows in the first quarter of 2021, but the positive news related to vaccine give hope that since the second quarter of 2021 we can hope for the permanent return of ordinary rhythm of life. Since the fund's portfolio does not include investments in hotels or entertainment segment the economic effect of Covid-19 to fund's cash flows was modest.

The temporary setback was mainly reflected in decrease of the fair value of fund's investment properties but European Commission's economic recovery plan, national measures of Baltic states and steps taken by European Central Bank give reason to predict that the setback in value of real estate is temporary and the real estate values will recover. This position is assured by the developments in residential real estate market in the Baltics where sales prices practically did not decrease and the effect of corona crisis was reflected in temporary, few-months long decrease in the number of transactions. Generally, the faster dynamics of residential real estate reflects in large-scale commercial real estate within delay of 3-4 quarters. As at the turn of the year, the average unleveraged net yield of the fund's underlying assets is 7.8%.

Despite the turmoil caused by coronavirus, the fund made four new investments during 2020: in February, two transactions were completed in Latvia by



purchasing Piepilsetas logistics and production centre in Kekava near Riga and AirBaltic's headquarters in the territory of Riga airport. In August 2020, the fund invested in the Rutkauskas office building in Vilnius, where the Lithuanian subsidiary of IT-group ATEA, that is listed in Norwegian stock market, is a long-term anchor-tenant. In the last month of the year, the fund acquired its first care home in Tallinn, Pirita district. The care home segment in the Baltics has a very good outlook for growth and the fund plans to invest in the given segment moving forward. In 2020, total investments in new commercial buildings totalled to EUR 33.5 million.

In conclusion, the management of the fund is satisfied with the fund's performance in 2020. As at the end of the year, 99% of commercial areas are rented out.

Financial overview

The consolidated sales revenue of EftEN Real Estate Fund III AS for 12 months of 2020 was EUR 10.731 million (12 months of 2019: EUR 9.512 million), which increased by 13% in a year. The Group's net rental income in 2020 totalled EUR 10.103 million (2019: 8,754 million euros), increasing by 15.4% year-on-year. The Group's net profit for the same period was EUR 3.317 million euros (2019 12 months: EUR 7.617 million). The lower net profit in 2020 is due to the revaluation of investment properties, which in turn was mainly due to a more conservative cash flow forecast.

In the fourth quarter of 2020, the fund earned a total sales revenue of EUR 3.033 million, which is 521 thousand euros (20.7%) more than in the same period last year. The increase in sales revenue in the fourth quarter by EUR 582 thousand is related to the increase in rental income from newly acquired investment properties, and rental income increase by EUR 96 thousand is due to a decrease in vacancies in the Evolution office building in Lithuania. In the fourth quarter, the Covid-19 crisis affected the rental income of the Saules Miestas shopping Centre the most, which is 178 thousand euros (19%) lower than last year.

In December 2020, Colliers International performed a regular valuation of the fund's real estate portfolio, as a result of which the value of the real estate portfolio as a whole increased by 611 thousand euros (0.4%). In 2020 as a whole, the value of the real estate portfolio decreased by a total of EUR 3.374 million euros (2.3%). The Fund's consolidated net profit for the fourth quarter was EUR 2.570 million euros (Q4 2019: 2.341 million euros).

The net asset value of EftEN Real Estate Fund III AS increased by 0.4% during 2020. In May 2020, the fund paid dividends from the profit of 2019 in the total amount of EUR 2.745 million (spring 2019: EUR 3.061 million). Without the payment of dividends, the fund's NAV would have increased by 4.7% during 2020. The annual return on invested capital (ROIC) was 6.4% as a result of the 2020 financial year (2019 12 months: 17.1%).



Access to flexible financing terms helps to increase the Group's competitiveness. During 2020, the Group received bank loans in connection with the acquisition and development of new real estate investments in the total amount of EUR 5.9 million. The weighted average interest rate of the Group's loan agreements (incl. the interest rate swap agreements) at the end of December is 2.3% (31.12.2019: 1.8%) and LTV (Loan to Value) 50% (31.12.2019: 52%).

During 2020, the Group has earned free cash flow of EUR 3.747 million (2019 12 months: EUR 3.381 million). After deducting Lithuanian corporate income tax expense and calculating the estimated dividend income tax expense for Estonian and Latvian companies, EftEN Real Estate Fund III AS could pay shareholders a net dividend of EUR 2.798 million (66 cents per share) from this year's profit in accordance with the established dividend policy.

Real estate portfolio

In January 2020, EftEN Real Estate Fund III AS entered into debt purchase agreements for the acquisition of the owner of the Air Baltic main building at Riga Airport and the owner of the production and warehouse building in Piepilsetas, Kekava, near Riga. The transactions were completed in March 2020 and the financial indicators of the two new subsidiaries have been consolidated line by line in the Group's financial statements as of March 1, 2020. A total of EUR 8.873 million was paid for the subsidiaries, including EUR 3.780 million in loan receivables from former owners. The transaction price is adjusted according to the agreement for changes in the working capital of subsidiaries during the period of concluding the transaction, and it is estimated that the Group will have to pay an additional 100 thousand euros for the acquisitions. The value of investment properties owned by subsidiaries totalled 15.800 million euros at the time of acquisition.

In August 2020, EftEN Rutkauskio UAB acquired an office building in Vilnius with an acquisition cost of EUR 11.8 million. The anchor tenant of the office building is the IT company Atea UAB. The acquisition was financed with 39% of the equity, as a result of which the entire fund's last year emission of EUR 16 million has been invested.

In November 2020, EftEN Real Estate Fund III AS established a 100% subsidiary EftEN Pirita OÜ, paying 2.5 thousand euros for the share capital of the subsidiary. In December 2020, the fund paid an additional EUR 3.1 million euros into the subsidiary's equity, after which the subsidiary acquired the first real estate investment fund in the new, care home segment. The acquisition cost of the real estate investment was EUR 6.2 million and the aged care home will be operated by Pirita Kodu OÜ. The tenant will start paying the rent from 1 April 2021 and during the start-up period the rent will gradually increase, reaching full capacity from 1 January 2022.

As of the end of September 2020, the Group has 15 (31.12.2019: 11) commercial real estate investments with a fair value of EUR 144.235 million (31.12.2019: EUR 113.011 million) and an acquisition cost of EUR 136.349 million (31.12.2019:



EUR 101.746 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	IV quarter		12 months	
	2020	2019(1)	2020	2019

EUR thousands				
Revenue	3,033	2,512	10,731	9,512
Cost of services sold	-103	-100	-325	-329
Gross profit	2,930	2,412	10,406	9,183
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Marketing costs	-97	-126	-303	-429
General and administrative expenses	-431	-870	-1,597	-1,847
Gain / loss on change in fair value of investment property	612	1,641	-3,374	3,101
Other operating income and expense	-7	38	-3	37
Operating profit	3,007	3,095	5,129	10,045
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Interest income	0	0	0	14
Other financial income and expenses	-355	-161	-1,322	-1,197
Profit before income tax	2,652	2,934	3,807	8,862
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Income tax expense	-82	-593	-490	-1,245
Total comprehensive income for the financial period	2,570	2,341	3,317	7,617

Earnings per share				
- Basic	0.61	0.56	0.79	2.01
- Diluted	0.61	0.56	0.79	2.01



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31.12.2020	31.12.2019
EUR thousands		
ASSETS		
Cash and cash equivalents	5,128	12,986
Short-term deposits	0	6,000
Receivables and accrued income	2,018	667
Prepaid expenses	128	51
Total current assets	7,274	19,704
Long-term receivables	18	0
Investment property	144,235	113,011
Tangible assets	101	114
Intangible assets	4	0
Total fixed assets	144,358	113,125
TOTAL ASSETS	151,632	132,829
LIABILITIES AND EQUITY		
Borrowings	28,781	21,147
Derivatives	246	271
Debts and advances	1,995	1,132
Total current liabilities	31,022	22,550
Borrowings	43,587	34,225



Other long-term debt	957	609
Deferred income tax liability	4,583	4,534
Total non-current liabilities	49,127	39,368
Total liabilities	80,149	61,918
Share capital	42,225	42,225
Share premium	9,658	9,658
Statutory reserve capital	1,323	936
Retained earnings	18,277	18,092
Total equity	71,483	70,911
TOTAL LIABILITIES AND EQUITY	151,632	132,829

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