

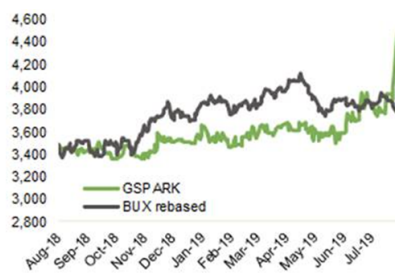
8 August 2019

## Graphisoft Park

## BUY

### Graphisoft Park: 2Q19 – steady as she goes

BBG Ticker	GSPARK HB
Market Cap (USD mil)	156
Price	4,480
Price target	4,336
Upside	-3.2%



Graphisoft Park published its 1H19 results yesterday (7 August), after the market closed. The company posted another steady set of figures. The NAV was flat qoq, at EUR 18.8/share, translating into a P/NAV of only 0.71x, even after the recent rally. The FFO, according to our reconciliation, reached EUR 2.8m in 2Q19. This means that, during the first six months, the company reached FFO of EUR 5.9m, some 53% of our full-year forecast (which would imply an 8.2% FFO yield). The solid delivery was underscored by upbeat guidance. Management has revised its 2019E forecast upwards slightly. It has also made available its forecasts for 2020E, when it expects further growth in rental income and implies 10% higher FFO, relative to our forecast.

#### Graphisoft Park: 2Q19 review

EUR m	2Q18	3Q18	4Q18	1Q19	2Q19	qoq	yoy	WOOD	vs. W
Rental income	2.8	3.4	3.7	3.5	3.5	1%	26%	3.5	1%
Service charge income	1.0	1.2	1.4	1.4	1.3	-4%	35%	1.4	-4%
Service charge expense	-1.0	-1.0	-1.2	-1.3	-1.2	-3%	28%	-1.2	0%
Direct property related expenses	0.0	0.0	0.0	0.0	0.0	0%	2.1x	0.0	56%
<b>Net rental income</b>	<b>2.8</b>	<b>3.6</b>	<b>3.9</b>	<b>3.6</b>	<b>3.6</b>	<b>1%</b>	<b>28%</b>	<b>3.7</b>	<b>-1%</b>
Operating expenses	-0.4	-0.2	-0.5	-0.3	-0.4	66%	7%	-0.5	-10%
Other income (expense)	0.4	0.1	-0.4	0.0	0.0	-2.0x	-1.0x	0.0	n/a
<b>EBITDA</b>	<b>2.9</b>	<b>3.5</b>	<b>3.0</b>	<b>3.4</b>	<b>3.2</b>	<b>-6%</b>	<b>11%</b>	<b>3.2</b>	<b>0%</b>
D&A and revaluation gains	1.6	0.9	1.1	0.0	0.0	11%	-1.0x	0.0	n/a
<b>Operating profit</b>	<b>4.4</b>	<b>4.4</b>	<b>4.1</b>	<b>3.3</b>	<b>3.1</b>	<b>-6%</b>	<b>-29%</b>	<b>3.2</b>	<b>-2%</b>
Interest income	0.0	0.0	0.0	0.0	0.0	n/a	n/a	0.0	n/a
Interest expense	-0.5	-0.3	-0.3	-0.3	-0.3	0%	-34%	-0.3	-4%
FX differences - realized	-0.7	0.0	0.0	0.0	-0.1	n/a	-92%	0.0	n/a
FX differences - not realized	0.7	-0.1	-0.2	0.0	0.0	-2.7x	-94%	-0.2	-1.2x
<b>PBT</b>	<b>4.0</b>	<b>4.0</b>	<b>3.6</b>	<b>3.0</b>	<b>2.8</b>	<b>-6%</b>	<b>-30%</b>	<b>2.7</b>	<b>5%</b>
Current income tax	0.0	0.0	0.0	0.0	0.0	-25%	-92%	0.0	-63%
Deferred income tax	0.0	0.0	0.0	0.0	0.0	n/a	-100%	0.0	n/a
<b>Profit for the period</b>	<b>4.0</b>	<b>4.0</b>	<b>3.6</b>	<b>3.0</b>	<b>2.8</b>	<b>-6%</b>	<b>-30%</b>	<b>2.7</b>	<b>6%</b>
<b>FFO reconciliation</b>	<b>2Q18</b>	<b>3Q18</b>	<b>4Q18</b>	<b>1Q19</b>	<b>2Q19</b>	<b>qoq</b>	<b>yoy</b>	<b>WOOD</b>	<b>vs. W</b>
Net rental income	2.8	3.6	3.9	3.6	3.6	1%	28%	3.9	-6%
Operating expenses	-0.4	-0.2	-0.5	-0.3	-0.4	66%	7%	-0.5	-10%
Other income / expense	0.4	0.1	-0.4	0.0	0.0	-2.0x	-1.0x	-0.4	-95%
Net interest expense	-0.5	-0.3	-0.3	-0.3	-0.3	0%	-34%	-0.3	-4%
Realized FX differences	-0.7	0.0	0.0	0.0	-0.1	n/a	-92%	0.0	n/a
<b>FFO I - pre-tax</b>	<b>1.7</b>	<b>3.2</b>	<b>2.7</b>	<b>3.1</b>	<b>2.8</b>	<b>-8%</b>	<b>61%</b>	<b>2.7</b>	<b>6%</b>
Current income tax	0.0	0.0	0.0	0.0	0.0	-25%	-92%	0.0	-63%
<b>FFO I</b>	<b>1.7</b>	<b>3.2</b>	<b>2.6</b>	<b>3.0</b>	<b>2.8</b>	<b>-8%</b>	<b>64%</b>	<b>2.6</b>	<b>6%</b>
# of shares (ex.treasury and employee)	10.1	10.1	10.1	10.1	10.1	0%	0%	10.1	0%
<b>FFO I / sh</b>	<b>0.17</b>	<b>0.32</b>	<b>0.26</b>	<b>0.30</b>	<b>0.28</b>	<b>-8%</b>	<b>64%</b>	<b>0.26</b>	<b>6%</b>
Annualized FFO yield*	5.1%	9.5%	7.9%	9.0%	8.3%				
NAV	182.4	187.2	190.8	191.1	189.5	-1%	4%		
NAV/sh	18.1	18.6	18.9	19.0	18.8	-1%	4%		
P/NAV*	0.74x	0.72x	0.71x	0.71x	0.71x				

Source: Company data, WOOD Research; \*on current share price

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### POSITIVE

Graphisoft Park's share price is up by more than 20% since we upgraded the company to a BUY in our sector report, published in June ([CEE Real Estate Update 12Jun2019.pdf](#)). While the stock hardly trades, for those who do not mind the low liquidity (and manage to get in), the company still ranks among the cheapest office plays in Europe, and remains a niche, but attractive way to get exposure to the CEE office markets, in our view. In Budapest, like elsewhere in CEE, the office market continues to enjoy very strong leasing momentum and, we believe, offers substantial room for rental growth over the next 5-10 years.

Considering its compact size, M&A would be the key catalyst for the share price, as we cannot rule out that a larger real estate company could try to take Graphisoft Park over – especially as yields for quality properties continue to compress across the region, pushing prices up. Other triggers include: the growth of monthly rents above EUR 16/sqm; further developments of new premises; and an increase in the dividend payout ratio. The key risks include:

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high tenant concentration; flooding; slower-than-expected progress with the decontamination of the northern development area; an economic downturn; FX fluctuations between the HUF and the EUR; oversupply on the office market; and an increase in capitalisation rates and borrowing costs.

Operationally, the key milestones achieved during the quarter were related to leasing. The company succeeded in renewing several lease contracts, which pushed up the occupancy to 97%, from 95% at the beginning of the year. Most notably, Microsoft, one of Graphisoft Park's key tenants renewed its lease contract (which was due to expire at the end of this year) for an additional five years. This improved the weighted average lease term to 5.1 years. We note that this includes a number of short, one-year leases, which the smaller companies regularly roll over. Perhaps a better metric to look at, when judging the longevity of the relationship between Graphisoft Park and its tenants, may be the average lease term spent at the Park: an impressive 12.3 years, as of the end of 2Q19.

#### Graphisoft Park: revision of the management guidance for FY2019

EUR m	2019-old	2019-new	% diff
Rental revenue	14	14.1	1%
Other income (net)	0.4	0.4	0%
Operating expense	-1.4	-1.4	0%
<b>EBITDA</b>	<b>13.0</b>	<b>13.1</b>	<b>1%</b>
Depreciation	-7.1	-7.1	0%
<b>Operating profit</b>	<b>5.9</b>	<b>6.0</b>	<b>2%</b>
Net interest expense	-1.2	-1.2	0%
<b>Profit before tax</b>	<b>4.7</b>	<b>4.8</b>	<b>2%</b>
Income tax expense	0.0	0.0	n/a
<b>Net profit</b>	<b>4.7</b>	<b>4.8</b>	<b>2%</b>

Source: Company data, WOOD Research

\*old denotes the guidance published in 1Q19, new denotes the guidance published in 2Q19

#### Graphisoft Park: restated management guidance vs our forecast

EUR m	2019G	2019W	% diff	2020G	2020W	% diff
Rental revenue	14.1	13.8	2%	14.5	13.8	5%
Other income (net)	0.4	0.4	5%	0.3	0.4	-22%
Operating expense	-1.4	-1.6	-13%	-1.5	-1.6	-8%
<b>EBITDA</b>	<b>13.1</b>	<b>12.5</b>	<b>5%</b>	<b>13.3</b>	<b>12.5</b>	<b>6%</b>
Depreciation	-7.1	-7.0	1%	-7.1	-7.0	1%
<b>Operating profit</b>	<b>6.0</b>	<b>5.5</b>	<b>9%</b>	<b>6.2</b>	<b>5.5</b>	<b>13%</b>
Net interest expense	-1.2	-1.4	-13%	-1.1	-1.4	-20%
<b>Profit before tax</b>	<b>4.8</b>	<b>3.8</b>	<b>26%</b>	<b>5.1</b>	<b>3.8</b>	<b>34%</b>
Income tax expense	0.0	0.0	n/a	0.0	0.0	n/a
<b>Net profit</b>	<b>4.8</b>	<b>3.8</b>	<b>26%</b>	<b>5.1</b>	<b>3.8</b>	<b>34%</b>

Source: Company data, WOOD Research; \* G denotes the guidance of Graphisoft Park, W denotes WOOD's estimate

#### Graphisoft Park: GLA of the park at 82k sqm, monthly rents at EUR 15/sqm

	4Q15	4Q16	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Occupancy	98%	100%	99%	99%	97%	95%	95%	96%	97%
Area/GLA* (sqm)	59,000	59,000	67,000	68,000	72,000	82,000	82,000	82,000	82,000
Rental income (EUR m)	2.34	2.38	2.87	2.86	2.82	3.44	3.70	3.51	3.54
Monthly rents (EUR/sqm)	13.5	13.5	14.4	14.2	13.5	14.7	15.8	14.9	14.8

Source: Company data, WOOD Research

\*We have retrospectively adjusted the area between 4Q15 and 4Q17 in order to roughly reflect the different reporting. Each year, we increased the area by 6k sqm, which is the difference between the 1Q18 GLA and the 1Q18 "Area" Graphisoft Park reported previously.

#### CEE Real Estate Universe: trading multiples

		Price	12M PT	Upside/	Mcsp	3M ADTV	FFO yield (%)		Div. yield (%)		P/BV (x)		ROE (%)		5Y FFO CAGR (%)
		(LCU)	(LCU)	downside	(EUR m)	EUR m	'19E	'20E	'19E	'20E	'19E	'20E	'19E	'20E	(%)
Graphisoft Park	BUY	4,360	4,336	-1%	142	0.0	8.3	8.2	5.4	5.4	0.68	0.67	6.1	5.6	2.2
Immofinanz	HOLD	24.15	25.0	3%	2,707	4.7	4.5	4.7	3.7	3.8	0.85	0.85	3.8	4.0	15.0
S Immo	SELL	19.52	18.7	-4%	1,306	1.9	5.0	5.1	3.7	3.8	1.05	1.02	5.5	5.3	4.2
CA Immo	HOLD	32.1	34.3	7%	3,172	2.8	3.8	4.1	3.0	3.3	1.04	0.99	4.1	4.2	13.9
Atrium	HOLD	3.65	3.59	-2%	1,379	0.8	7.0	7.4	7.4	7.4	0.77	0.78	5.4	5.7	-2.5
GTC	BUY	9.24	11.09	20%	1,038	0.3	7.1	7.4	4.6	4.8	0.93	0.90	6.8	6.8	7.5
NEPI Rockcastle	BUY	7.85	8.416	7%	4,450	5.5	7.2	7.3	7.1	6.7	1.14	1.12	8.2	8.3	1.0
Globalworth	BUY	9.25	10.8	17%	1,793	1.2	6.1	6.3	6.0	6.6	1.05	1.02	6.7	6.5	14.6
<b>CEE RE Universe</b>							<b>5.8</b>	<b>6.1</b>	<b>5.1</b>	<b>5.2</b>	<b>0.98</b>	<b>0.96</b>	<b>5.8</b>	<b>5.8</b>	<b>7.7</b>

Source: Bloomberg, WOOD Research (we calculate all the forward looking multiples using WOOD estimates)

Year	BV	BVPS	Net LTV	Equity	FFO	FFOPS	FFOROE	P/BV	FFO	DPS	Div. Yield
	(EUR m)	(EUR)		ratio	(EUR m)	(EUR)			yield	(EUR)	(%)
2016	24	2.3	65%	30%	7.2	0.71	31.1%	3.4x	9.0%	0.25	3.2%
2017	26	2.6	69%	25%	8.5	0.84	34.3%	4.3x	7.5%	0.30	2.6%
2018	168	16.6	28%	67%	9.9	0.98	10.2%	0.7x	9.0%	0.64	5.9%
2019E	197	19.6	23%	70%	11.1	1.10	6.1%	0.7x	8.3%	0.72	5.4%
2020E	201	20.0	22%	70%	11.1	1.10	5.6%	0.7x	8.2%	0.72	5.4%
2021E	205	20.3	21%	71%	11.1	1.10	5.5%	0.7x	8.2%	0.71	5.3%

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BRD	5
Bucharest Stock Exchange	5
Santander Bank Polska	5
CDC	5
CD Projekt	5
CEZ	5
Ciech	5
CME	5
Cyfrowy Polsat	5
Dino	5
DO&CO	5
Electrica	5
Enea	5
Energia	5
Erste Group Bank	5
Eurobank	4
Eurocash	2, 4, 5
Famur	1, 2, 3
Fortuna	5
Fondul Proprietatea	4, 5
Getin Noble Bank	5
Graphisoft Park	5
GTC	5
IWO BSK	5
Inter Cars	5
JSW	5
Kazatomprom	5
Kernel	5
Kety	6

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KGHM	5
Kofola CS	1, 2, 3, 5
Komerční	4, 5
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Lotos	5
LPP	5
mBank	5
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