

## Winner in a downturn

**Attractive entry and running yields supported by rent increases enable EFTEN Real Estate Fund AS (EFTEN) to stand strong in a downturn. Management is ready and able to capitalize on buying opportunities.**

### Outstanding yields

EFTEN's acquisition yield (8.4%) and running yield (7.9%) is comfortably above the estimated current cost of financing of 5.5-6.0%, which puts EFTEN in a position to capitalize on buying opportunities that might appear as some players are close to a negative yield gap (running yield < cost of financing). EFTEN's high rent yields are a result of low entry prices (+50% portfolio bought before 2015), conservative revaluations (only 3.5% higher vs. acquisition price), and ability to increase rents (H1/23 rents +6% y-on-y).

### Fair yield indicates portfolio upside

The wide P/BV differences for real estate companies active in the Baltics shows hesitation to reported book values (BV) and re-financing capability. We believe EFTEN's BV is sound and re-financing should be smooth. We believe a Fair property portfolio yield for EFTEN is 7.59%, implying a Fair BV/shr. of EUR 21.84 vs. last reported BV/shr. of EUR 20.35.

### Base case Fair value EUR 21.84/shr.

We initiate coverage on EFTEN with a Base case FV of 21.84/shr equal to our Fair BV. If there is no downward property re-valuation in H2/23, our estimated year-end BV is EUR 23.99/shr., implying an even larger upside. The EFTEN share is down around 30% since its 2021 peak. Long-term investors might find these levels interesting although it is impossible to predict the bottom for the real estate sector.

### Key figures (MEUR)

	2021*	2022*	2023E	2024E	2025E
Rental income	12.2	13.5	30.8	31.5	32.3
Rental inc. growth	21.6%	10.9%	128.1%	2.5%	2.6%
EBITDA	10.2	11.8	26.4	27.1	27.8
EBITDA margin	83.5%	87.6%	85.7%	85.9%	85.9%
EBIT	10.1	11.8	26.3	26.9	27.6
EBIT margin	82.9%	87.3%	85.5%	85.4%	85.4%
EV/Sales	14.3	11.6	9.7	9.2	8.8
EV/EBITDA	17.1	13.3	11.3	10.8	10.2
EV/EBIT	17.2	13.3	11.4	10.8	10.3
P/E adj.	8.2	8.8	19.0	11.5	10.8
P/BV	1.2	1.0	0.7	0.7	0.7
EPS adj.	2.79	2.25	0.94	1.55	1.65
EPS growth adj.	254.87%	-19.32%	-58.10%	65.02%	6.23%
Div. per share	0.80	1.15	0.70	0.77	0.87
Dividend yield	3.51%	5.84%	3.89%	4.33%	4.87%

Source: Company data, Enlight Research estimates \*pre-merger

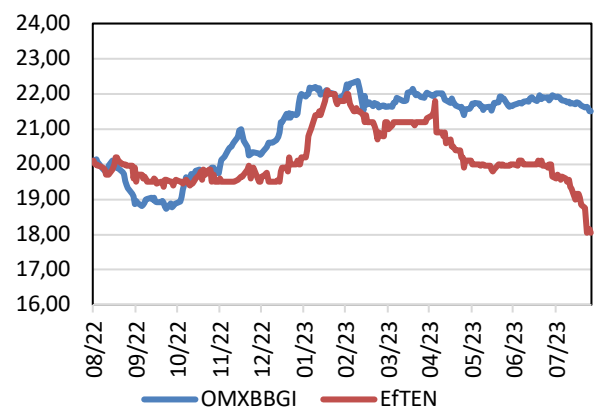
### Fair value range (EUR)

Bull (P/BV* 1.1x)	24.02
Base (P/BV* 1.0x)	21.84
Bear (P/BV* 0.9x)	19.66

### Key Data

Price (EUR)	17.90
Ticker	EFT1T
Country	Estonia
Listed	Tallinn
Market Cap (EURm)	194
Net debt (EURm)	99
Shares (m)	10.8
Free float	80%

\*1PA/Enlight Research adj. BV



### Price range

52-week high	22.10
52-week low	17.90

### Analyst

ResearchTeam@enlightresearch.net

### Coverage frequency

2x per year

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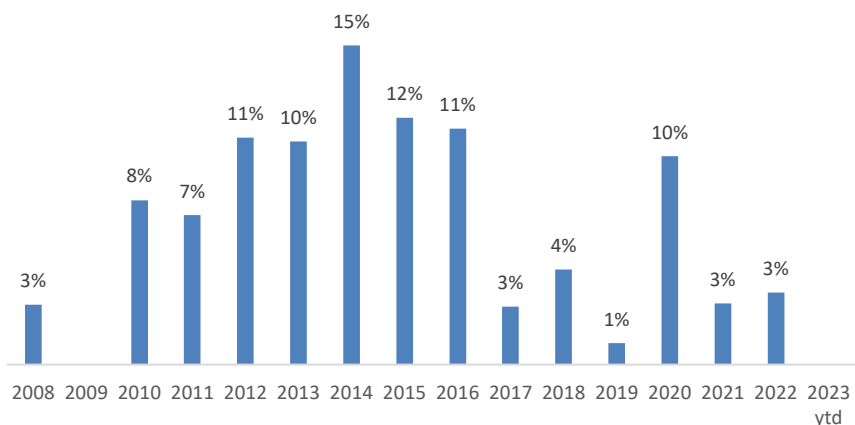
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## Key Investment Factors

### Attractive entry points

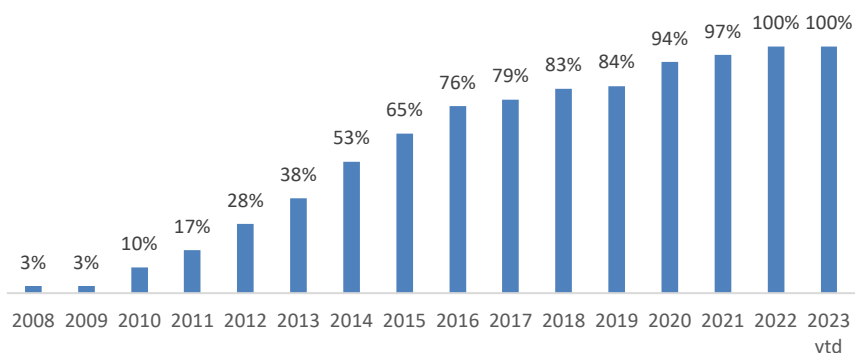
EfTEN bought most of its properties well before the 2022 peak prices. Based on acquisition price, half of the portfolio was bought before 2015 when yields were attractive in the aftermath of the financial crisis (original acquisition dates assumed for merged EfTEN Kinnisvarafond AS). Furthermore, EfTEN has been very disciplined in recent years when it has been hard to motivate the price levels. From 2021 until today, only 6% of the portfolio was acquired. Consequently, the acquisition price weighted average holding period is about 7 years corresponding to the year 2015 (first acquisition was made in 2008 by the recently merged fund, EfTEN Kinnisvarafond AS). The low entry prices mean the acquisition yield is an attractive 8.4% (Net rental income divided property portfolio acquisition value). A conservative property re-valuation approach means the market based yield is attractive as well at 7.9% (annualized Net rental income divided by property portfolio market value). Excluding the 50% owned Hotel Palace, the acquisition value of the property portfolio has only been re-valued upward by 3.5% to EUR 361m from EUR 349m, corresponding to a yield compression of just 0.5 percentage points which we believe is conservative (including Hotel Palace the re-valuation is even lower at 3.3%).

Share of total acquisitions made by year based on purchase price

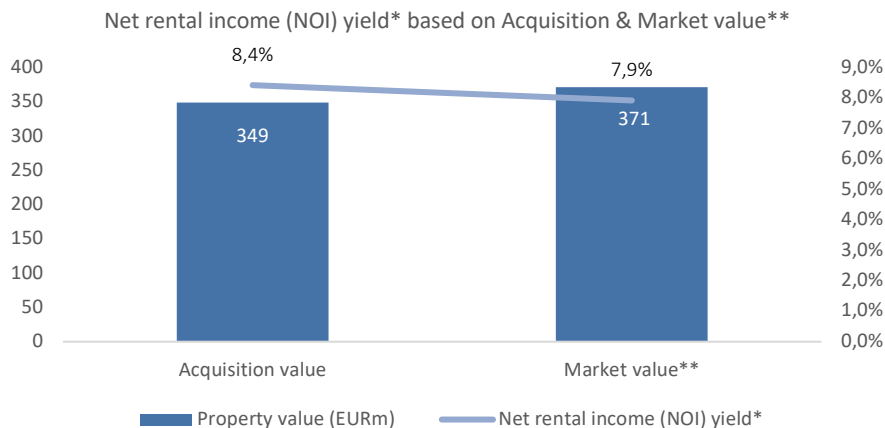


Source: EfTEN  
Original acquisition dates are used for EfTEN Kinnisvarafond AS

Share of total acquisitions made by year based on purchase price (accumulative)



Source: EfTEN  
Original acquisition dates are used for EfTEN Kinnisvarafond AS



Source: EfTEN

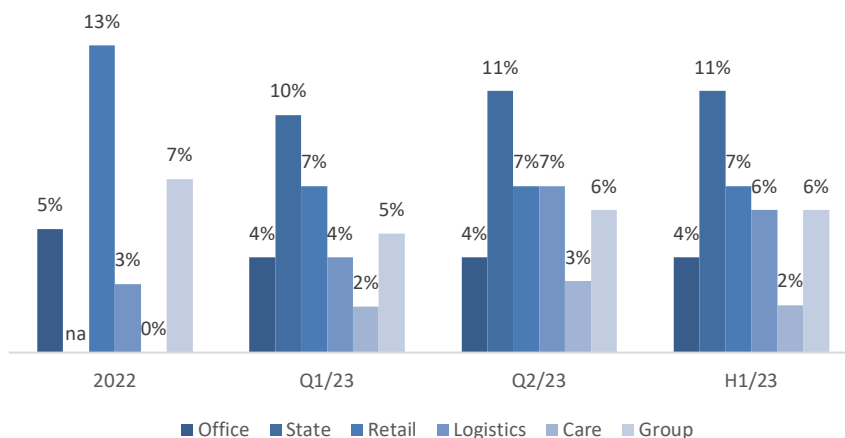
\*Net rental income (NOI) calculated as reported H1/23 Net rental income annualized

\*\* Market value includes 50% owned Hotel Palace in the amount EUR 9.8m

### High-quality tenants enable rent growth

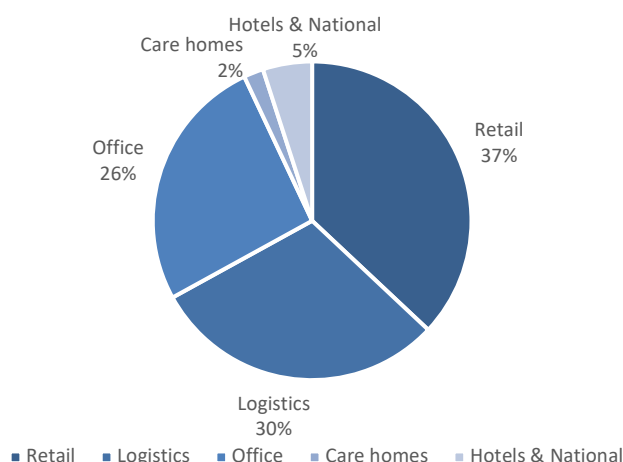
Despite the recessionary times with high inflation, EfTEN successfully raised rents by 7% in 2022 and by 6.0% y-on-y in H1/23 on a like-for-like basis. In 2022, rent increases were successfully implemented in all segments (office, retail, logistics) except Care home premises which had unchanged rents. In H1/23, rent increases were successfully implemented in all segments. The key to EfTEN’s rent increases is its high-quality tenant portfolio who are less sensitive to rent increases. Some examples of the largest tenants are Kesko Senukai Estonia AS (one of the largest home improvement suppliers in Latvia and Estonia), Prisma Peremarket AS (Finnish food retailer established as one of the largest food retailers in Estonia), Rimi Lietuva (Swedish food retailer established as one of the largest food retailers in Lithuania), Atea (Norwegian IT consultant established as one of the largest IT service providers in the Baltics), Selver AS (Estonian food retailer established as one of largest food retailers in Estonia), and DSV (Danish logistics company established as one of the largest logistics companies in the Baltics). In our view, EfTEN has built a tenant portfolio consisting of large stable companies/organizations without compromising on the diversification both in terms of specific tenants (no tenant makes up more than 6% of rent income) and in terms of sector exposure (roughly one third retail, logistics, and office).

EfTEN Like-for-like implemented rent increases



Source: EfTEN

EFTEN Real Estate Fund AS portfolio by sector at end of H1/23



Source: EFTEN

### Seasoned management ready and able to seize opportunities

The main managing founders of the management company EFTEN Capital AS (Viljar Arakas, Tõnu Uustalu), who created and manage the EFTEN Real Estate Fund AS, have over twenty years' experience doing major transactions in the Baltic real estate market. EFTEN Capital AS was founded in 2008 in the wake of the financial crisis (Lehman crash) as the founders saw great long-term opportunities due to foreigners pulling out and locals being too scared or not able to buy. When nobody wanted or could buy, EFTEN Kinnisvarafond AS bought two properties, the K-Rauta home improvement store in Võru, and the Premia (food processor) cold storage in Tallinn – both survived the financial crisis with flying colours and produce nice rental income for the EFTEN Real Estate Fund AS today. Today, the EFTEN founders/management see a similar situation as during the financial crisis (albeit for different reasons) – foreigners pulling out due to the Russia/Ukraine war and locals not being able to buy due to fear or high interest rates. Although the downturn is not expected to be as big as during the financial crisis, the probability of good upcoming buying opportunities should be high as some real estate investors are close to a negative yield gap (NOI yield is lower than loan interest cost), in our view. EFTEN's estimated positive yield gap of 2.42 percentage points (NOI yield of 7.92% less our estimated bank loan financing costs of 5.50%) means they are well positioned to capitalize on a downturn in the Baltic real estate market.

Estimated yield gap	Net rental yield*	Financing cost**	Spread %-pts
EFTEN	7.92%	5.50%	2.42%
EastNine	5.81%	4.50%	1.31%
Baltic Horizon	6.64%	5.75%	0.89%

Source: Company reports (EFTEN, EastNine, Baltic Horizon)

\*Reported H1/23 Net rental income annualized divided by latest reported market value of properties.

\*\*Financing costs estimated as 3M Euribor (3.75%) + 1PA/Enlight Research estimated bank margin for respective company considering debt ratios and re-financing needs.

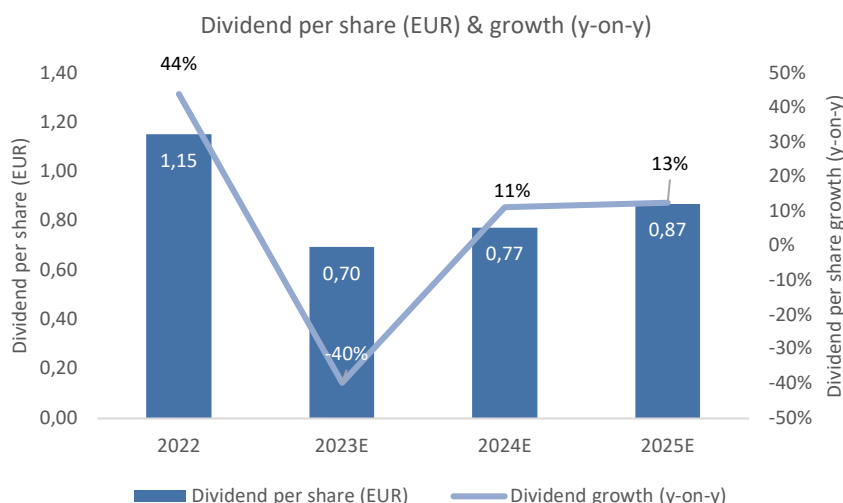
### Dividend yield is still there

Despite the current softness of the Baltic real estate market, we forecast EFTEN to pay a dividend per share of EUR 0.70 from 2023 profits, implying a yield of 3.9%. In 2024, we forecast a dividend per share increase to EUR 0.77, equal to an estimated yield of 4.3% followed by a 2025 dividend per share of EUR 0.87 equal to an estimated yield of 4.9%. Our estimated dividend pay-out ratio is in-line with EFTEN's dividend policy to distribute at least 80% of the annual free cash flow after debt repayments and

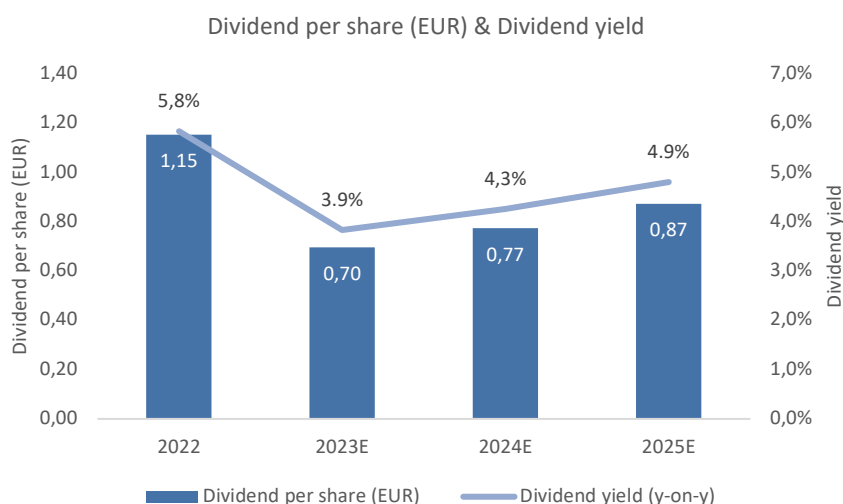
interest expenses. We regard it as a strength to be able to pay dividends in the current environment.

Dividend yield calculation	2021	2022	2023E	2024E	2025E
<b>Free cash flow</b>	<b>4.6</b>	<b>6.2</b>	<b>11.2</b>	<b>12.0</b>	<b>13.2</b>
80% of free cash flow	3.6	4.9	8.9	9.6	10.5
Dividend tax expense	-0.2	-0.3	-1.4	-1.2	-1.1
<b>Potential net dividend according to policy</b>	<b>3.4</b>	<b>4.6</b>	<b>7.5</b>	<b>8.4</b>	<b>9.4</b>
Potential incremental cash flow	0.7	1.0	0.0	0.0	0.0
Income tax on incremental cash flow	0.0	-0.2	0.0	0.0	0.0
<b>Potential net dividend w/ incremental cash flow</b>	<b>4.1</b>	<b>5.4</b>	<b>7.5</b>	<b>8.4</b>	<b>9.4</b>
<b>Potential net dividend w/ incremental cash flow &amp; merged fund</b>		<b>12.5</b>	<b>7.5</b>	<b>8.4</b>	<b>9.4</b>
Shares end of period (m)	5.1	10.8	10.8	10.8	10.8
Potential net dividend per share	0.80	1.15	0.70	0.77	0.87
Share price (EUR)	22.80	19.75	17.90	17.90	17.90
Dividend yield	3.5%	5.8%	3.9%	4.3%	4.9%

Source: EFTEN (historic), Enlight Research (estimates)



Source: EFTEN (Historic), Enlight Research (Estimates)

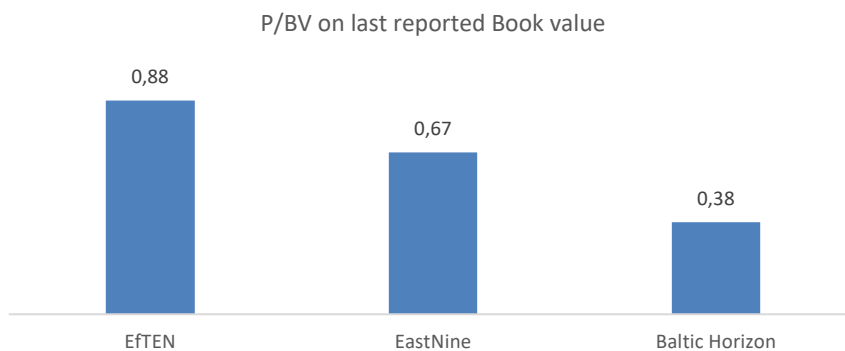


Source: EFTEN (Historic), Enlight Research (Estimates)  
Based on share price EUR 17.90

## Valuation

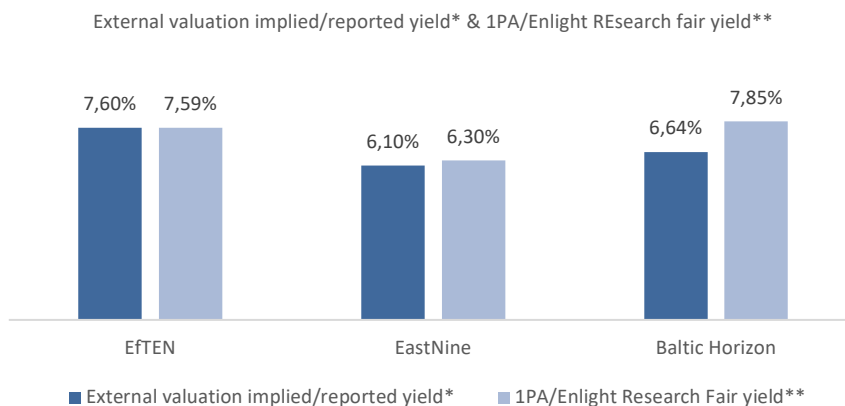
### Property yield & P/BV

The P/BV ratio is the most used valuation metric for real estate companies. Looking at the listed real estate companies active in the Baltics, we see large differences in the P/BV ratios with EfTEN at 0.88x, EastNine at 0.67x, and Baltic Horizon at 0.38x (based on last reported book value). The large P/BV ratio differences and discounts reveals that investors are hesitant to the reported book values and/or have worries about debt levels and/or re-financing capabilities. Therefore, a closer analysis of the book values is needed.



Source: Company reports (EfTEN, EastNine, Baltic Horizon)

The main determinant of the book value is the value of the property portfolio and the key assumption when valuing the property portfolio is the assumed yield. A higher assumed yield is regarded as more conservative and vice versa. In the last reported external valuation (H1/23), the implied/reported yield used by the valuator was 7.6% for EfTEN (our estimate, not reported), 6.1%, for East Nine (reported), and 6.6% for Baltic Horizon (our estimate, not reported). In our view, EfTEN's and EastNine's valuation yields appears realistic while Baltic Horizon's yield appears too optimistic (too low). We believe a Fair yield for EfTEN is 7.59% which roughly the same as the external valuation implied yield of 7.60%. We believe EastNine's focus on prime office buildings motivates a lower Fair yield than EfTEN and Baltic Horizon. Hence, our estimated Fair yield for EastNine is 6.30% which is also close to the reported external valuation yield of 6.10%. For Baltic Horizon, we believe a Fair yield is 7.85% which is significantly higher than the external valuation implied yield of 6.64% (the difference between the external valuation implied yield and our fair yield is mainly due to retail properties).

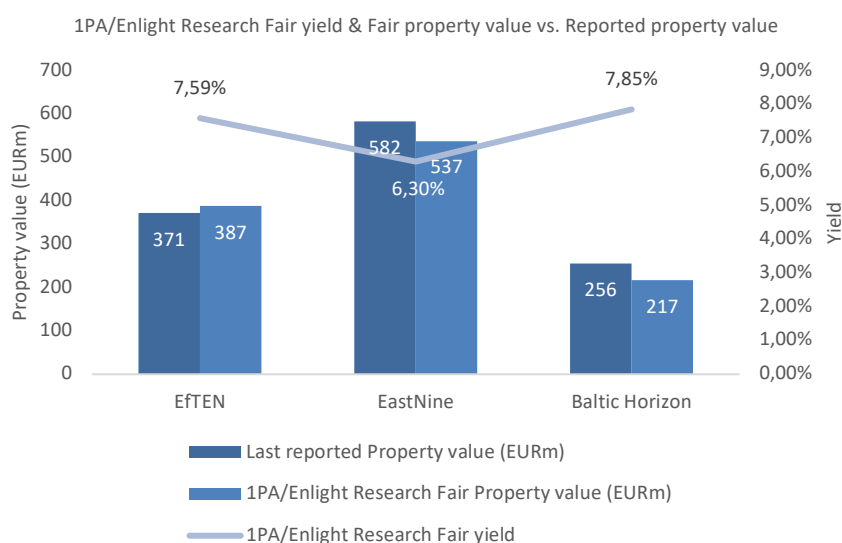


Source: \*External valuation implied yield for EfTEN & EastNine estimated by 1PA while it is reported in H1/23 for EastNine \*\*Fair yield is estimated by 1PA based on individual properties

Applying our Fair yield of 7.59% to EFTEN's last reported annualized Net rental income indicates a EUR 16m upward adjustment of the property portfolio to EUR 387m. For EastNine and Baltic Horizon, the indicated adjustments are negative EUR 45m, and EUR 39m, respectively.

<b>1PA/Enlight Research Fair value yield &amp; Property value</b>	<b>EFTEN</b>	<b>EastNine</b>	<b>Baltic Horizon</b>
1PA/Enlight Research Fair yield	7.59%	6.30%	7.85%
1PA/Enlight Research Fair Property value (EURm)	387	537	217
Last reported Net rental income annualized (EURm)	29	34	17
Last reported Property value (EURm)	371	582	256
Difference (EURm)	16	-45	-39
Difference (%)	4%	-8%	-15%

Source: Company reports (Last reported property value), 1PA/Enlight Research (Fair value yield, Fair property value)



Source: Company reports (Last reported property value), 1PA/Enlight Research (Fair value yield, Fair/adjusted Property value)

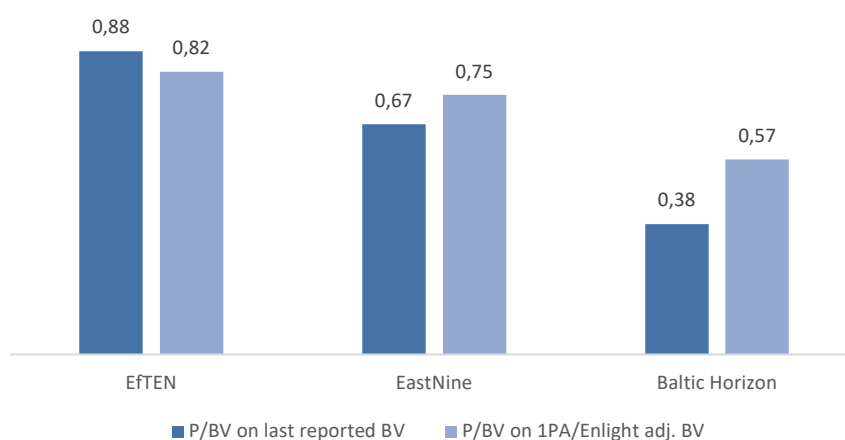
Adjusting the last reported Book value with our Fair value property adjustments, indicates a decrease in EFTEN's P/BV to 0.82x from 0.88x i.e., on our adjusted (Fair) book value, EFTEN's P/BV is 0.82x. For EastNine, the P/BV ratio would increase to 0.75x from 0.67x, while Baltic Horizon's P/BV would increase to 0.57x from 0.38x. To summarize, based on our adjusted/Fair Book value, EFTEN and EastNine are trading at roughly the same P/BV multiple of 0.8x, while Baltic Horizon is trading at 0.6x. This does not mean that Baltic Horizon is the most attractive. Taking the debt level and the re-financing needs into account, we believe a Baltic Horizon discount vs. EFTEN and EastNine is justified.

<b>1PA/Enlight Research adj. P/BV multiple</b>	<b>EFTEN</b>	<b>EastNine</b>	<b>Baltic Horizon</b>
Last reported Book value (EURm)	220	426	119
1PA/Enlight Research book value adjustment (EURm)	16	-45	-39
1PA/Enlight Research adjusted Book value (EURm)	236	381	79
1PA/Enlight Research Fair/adjusted Book value per share (EUR)	21.84	17.01	0.66
Share price (EUR)	17.90	12.80	0.375
P/BV at 1PA/Enlight Research adj. Book value	0.82	0.75	0.57
P/BV at last reported Book value	0.88	0.67	0.38

Source: Company reports (Last reported book value), 1PA/Enlight Research (Fair value yield, Fair property value)



P/BV multiple on last reported BV &amp; 1PA/Enlight adj. BV



Source: Company reports (Last reported BV = Book value), 1PA/Enlight Research (Fair/adjusted BV), P = share price

We believe a reasonable long-term P/BV multiple for EFTEN is 1.1x. However, given the current turmoil in the real estate sector with book value uncertainties, we apply P/BV of 1.0x in our Base case scenario for EFTEN, which implies a share price of EUR 21.84 (around 20% upside). Worth noting is that we use our estimated Fair book value (BV) of EUR 21.84 per share. Our Bear scenario assumes a P/BV of 0.9x on our Fair BV, which indicates a share price of EUR 19.66. Our Bull scenario assumes a P/BV of 1.1x on our Fair BV, which indicates a share price of EUR 24.02.

<b>EFTEN Fair value scenarios</b>	<b>Bear</b>	<b>Base</b>	<b>Bull</b>
Fair Book value per share (EUR)	21.84	21.84	21.84
Fair P/BV multiple	0.9	1.0	1.1
Fair value per share (EUR)	19.66	21.84	24.02
Share price (EUR)	17.90	17.90	17.90
Upside/Downside	10%	22%	34%

Source: Enlight Research

## Forecast

The 128% estimated Rental income growth in 2023 is mainly due to the merger with EfTEN Kinnisvarafond AS (consolidated 1 January 2023), which more than doubled the Net leasable area to 339K m2 from 148K m2. For 2024 and 2025, we estimate a modest 2.5% growth in Net leasable area with basically unchanged Occupancy rate at 98% and Rent per m2 of around EUR 92.75. This year, a EUR 6.2m negative change in the property value burden the Net profit, which is estimated to decrease to EUR 10.2m from EUR 11.4m in 2022. Next year, we do not expect any change in the property value which means our estimated Net profit increases significantly to EUR 17.9m. Before property value changes, the 2024 estimated Income from property management is forecast to increase (+3.6%) to EUR 19.1m from an estimated EUR 18.4m in 2023.

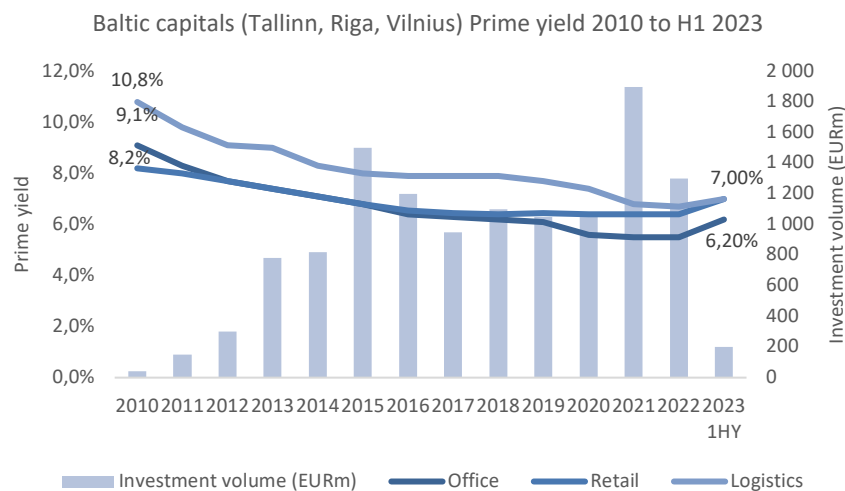
EfTEN Forecast								
Key ratios	Q1/23	Q2/23	Q3/23E	Q4/23E	2022	2023E	2024E	2025E
Net leasable area (m2 thous.)	336	338	338	339	148	339	347	356
Growth y-on-y	133.8%	129.7%	129.6%	129.5%	2.6%	129.5%	2.5%	2.5%
Occupancy rate	99%	98%	98%	98%	100%	98%	98%	98%
Leased Net area (m2 thous.)	333	331	332	332	148	332	340	349
Growth y-on-y	131.5%	127.4%	125.0%	124.9%	3.7%	124.9%	2.5%	2.5%
Rent per m2 Net area (EUR)	22.54	23.29	23.22	23.68	91.45	92.75	92.73	92.78
Growth y-on-y	-1.3%	2.1%	1.1%	-0.1%	7.0%	1.4%	0.0%	0.1%
Income statement (EURm)								
	Q1/23	Q2/23	Q3/23E	Q4/23E	2022	2023E	2024E	2025E
Rental income	7.5	7.7	7.7	7.9	13.5	30.8	31.5	32.3
Other operating income	0.3	0.2	0.3	0.3	0.8	1.0	1.0	1.1
<b>Total income</b>	<b>7.8</b>	<b>8.0</b>	<b>7.9</b>	<b>8.1</b>	<b>14.3</b>	<b>31.8</b>	<b>32.6</b>	<b>33.4</b>
Operating costs	-0.4	-0.4	-0.4	-0.4	-0.3	-1.6	-1.6	-1.7
<b>Net operating income (NOI)</b>	<b>7.4</b>	<b>7.6</b>	<b>7.6</b>	<b>7.7</b>	<b>14.0</b>	<b>30.2</b>	<b>30.9</b>	<b>31.7</b>
Sales, General & Admin. Expenses	-1.0	-1.1	-1.0	-0.9	-2.3	-3.9	-4.0	-4.1
Other operating expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense	-1.6	-2.0	-2.1	-2.3	-1.8	-7.9	-7.8	-7.3
Other financial income/expense	0.0	-0.1	0.0	0.1	0.1	0.0	0.0	0.0
<b>Total operating expenses</b>	<b>-2.5</b>	<b>-3.1</b>	<b>-3.1</b>	<b>-3.1</b>	<b>-3.9</b>	<b>-11.8</b>	<b>-11.8</b>	<b>-11.4</b>
<b>Income from property mgmt.</b>	<b>4.9</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>10.1</b>	<b>18.4</b>	<b>19.1</b>	<b>20.3</b>
Value changes, Properties	0.0	-6.2	0.0	0.0	3.1	-6.2	0.0	0.0
Value changes, Fin. Inst.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other value changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total value changes	0.0	-6.2	0.0	0.0	3.1	-6.2	0.0	0.0
<b>Pre-tax profit</b>	<b>4.9</b>	<b>-1.7</b>	<b>4.5</b>	<b>4.5</b>	<b>13.2</b>	<b>12.2</b>	<b>19.1</b>	<b>20.3</b>
Current tax	0.0	-0.4	-0.1	0.1	-0.3	-0.4	-0.3	-0.3
Deferred tax	-0.2	-0.1	-0.5	-0.7	-1.5	-1.6	-2.0	-2.1
Minorities/Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>4.6</b>	<b>-2.2</b>	<b>3.8</b>	<b>3.9</b>	<b>11.4</b>	<b>10.2</b>	<b>16.8</b>	<b>17.9</b>
Growth								
	Q1/23	Q2/23	Q3/23E	Q4/23E	2022	2023E	2024E	2025E
Rental income - q-on-q	114.6%	2.9%	-0.3%	2.0%	na	na	na	na
Rental income - y-on-y	125.2%	125.5%	120.1%	119.2%	10.9%	128.1%	2.5%	2.6%
Total income - q-on-q	110.5%	2.2%	-0.2%	2.0%	na	na	na	na
Total income - y-on-y	117.6%	119.7%	113.8%	110.6%	10.7%	122.4%	2.4%	2.5%
Margins								
	Q1/23	Q2/23	Q3/23E	Q4/23E	2022	2023E	2024E	2025E
Net operating margin (NOI)	94.9%	95.4%	95.0%	94.6%	98.1%	95.0%	95.0%	95.0%
Property mgmt margin	62.8%	56.2%	56.3%	56.0%	70.6%	57.8%	58.7%	60.8%
Pre-tax profit margin	62.8%	-21.4%	56.3%	56.0%	92.4%	38.3%	58.7%	60.8%
Net profit margin	59.5%	-27.5%	48.4%	48.1%	79.8%	32.1%	51.7%	53.5%

Source: Company (historical), Enlight Research (estimates)

## Market overview

So far this year, the property market investment volume (deal volume) in all three Baltic countries (Estonia, Latvia, Lithuania) is significantly below previous years' levels. As of H1/23, the deal volume was EUR 200m compared to around EUR 500m the previous 8 years. Lithuania represented approximately half of the Baltic investment volume in H1/23 i.e., Lithuania is doing relatively well compared to Estonian and Latvia. Notable transactions in the Baltics include: two hotels in Tallinn with transaction size EUR 20-30m and a 5 star hotel in Riga. Vilnius transactions was led by the office deal, Duetto I and II, where Baltic Horizon was the seller and East Capital Real Estate Fund IV the buyer. The total transaction size was EUR 30-40m and the net initial yield was around 7.2%. Vilnius also had Forum Cinemas transaction with a volume over EUR 10m. Higher interest rates have put yields under pressure. In our view, transactions with a yield below 6.0% is not feasible in the Baltic capitals as financing costs are higher. We see the following trends in the Baltics (see also trend summary on next page):

- High interest rate will remain as headline for next 12 months keeping the yields under the pressure.
- The prime yields could move upward up to 50 bps in different sectors, especially retail segment.
- Core office and A-class logistics remain as most attractive investment segment.
- Force sale scenarios can be more of a headline in 2023 2HY and 2024 as interest rates are wearing out the operational cash flows of the properties putting pressure on the owners to refinance the loans or keeping the equity levels and covenants sufficient.
- More active investment market will follow when interest climate has stabilized or beginning to fall. Euribor futures show a decline in interest in 2024 1HY which will boost the investment market liquidity and overall volume.



Source: 1Partner Advisory

### 2023 Q2 Estimated Prime yields by segment

	Tallinn	Riga	Vilnius
Office	6.30%	6.50%	6.00-6.30%
Retail	7.00-7.50%	7.00-7.50%	7.00-7.50%
Grocery retail	6.50-7.00%	6.50-7.00%	6.50-7.00%
Industrial	7.00%	7.00%	7.00%

Source: 1Partner Advisory

## Baltic market trends per segment and city

### OFFICE

TALLINN	2023	FORECAST
Total Office space	850 000 sqm	950 000 sqm
A-class vacancy rate	5,00%	→
Total vacancy rate	8,00%	→
Top office rents	€ 18.00 - 22.00	→
avg A-class rents	€ 16.00 - 18.00	→
avg B-class rents	€ 9.00 - 16.00	→

RIGA	2023	FORECAST
Total Office space	750 000 sqm	850 000 sqm
A-class vacancy rate	12,50%	↓
Total vacancy rate	12,0%	↓
Top office rents	€ 18.00 - 20.00	→
avg A-class rents	€ 14.00 - 18.00	→
avg B-class rents	€ 9.00 - 16.00	→

VILNIUS	2023	FORECAST
Total Office space	1 100 000 sqm	1 300 000 sqm
A-class vacancy rate	5,00%	→
Total vacancy rate	6,00%	→
Top office rents	€ 18.00 - 20.00	→
avg A-class rents	€ 14.00 - 16.00	→
avg B-class rents	€ 9.00 - 16.00	→

### RETAIL

TALLINN	2023	FORECAST
Total stock	780 000 sqm	800 000 sqm
Vacancy SC	<5,0%	→
Prime SC rent	€ 20.0 - 45.0	→
Grocery rent	€ 10 - 14.0	→

RIGA	2023	FORECAST
Total stock	850 000 sqm	850 000 sqm
Vacancy SC	<7,5%	→
Prime SC rent	€ 20.0 - 40.0	→
Grocery rent	€ 8.0 - 12.0	→

VILNIUS	2023	FORECAST
Total stock	780 000 sqm	780 000 sqm
Vacancy SC	< 3,5%	→
Prime SC rent	€ 20.0 - 45.0	→
Grocery rent	€ 10 - 14.0	→

### LOGISTICS

TALLINN	2023	FORECAST
Total stock	1 700 000 sqm	1 800 000 sqm
A-class vacancy rate	< 3,0%	→
avg A-class rents	€ 5.0 - 6.3	→

RIGA	2023	FORECAST
Total stock	1 400 000 sqm	1 500 000 sqm
A-class vacancy rate	< 3,0%	→
avg A-class rents	€ 4.2 - 5.5	→

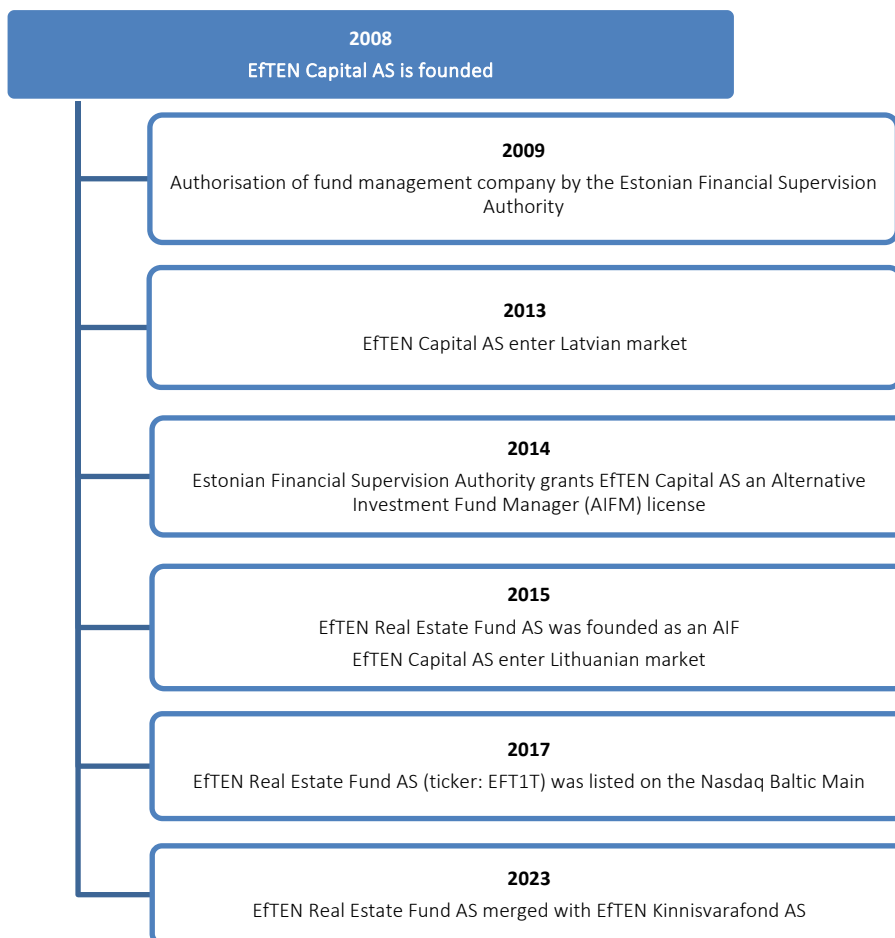
VILNIUS	2023	FORECAST
Total stock	800 000 sqm	930 000 sqm
A-class vacancy rate	< 3,0%	→
avg A-class rents	€ 5.0 - 5.5	→

Source: 1Partner Advisory

## Company description

### History

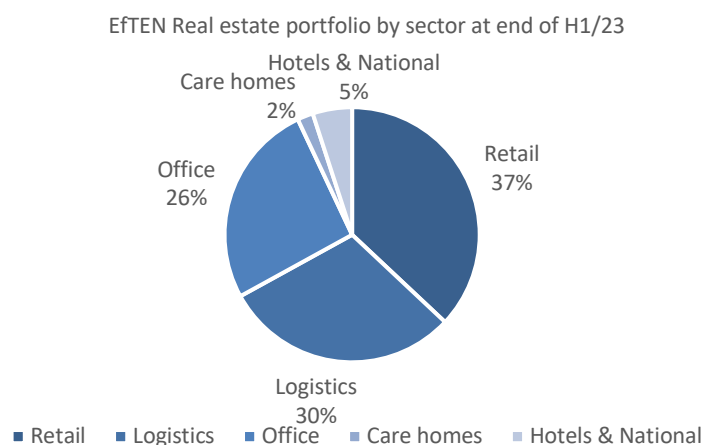
EfTEN Capital AS is a fund management company founded in 2008 by four managing partners Viljar Arakas, Tõnu Uustalu, Marilin Hein and Maie Talts who are all active in the company today and 7 seed capital investors. The focus then and now is real estate investing in the Baltic States. In 2009, the Estonian Financial Supervision Authority granted EfTEN Capital AS a fund management license. In 2013, EfTEN Capital AS entered the Latvian market through establishing a joint venture EfTEN Capital SIA, forming one of the biggest real estate management company in the Baltics. In 2014, EfTEN Capital AS was granted an Alternative Investment Fund Manager (AIFM) license and in 2015, the EfTEN Real Estate Fund AS was founded as an AIF. Then, it was called EfTEN Real Estate Fund III AS. In 2015 EfTEN Capital AS entered the Lithuanian market through establishing a majority controlled joint venture EfTEN Capital Lietuva UAB. In 2017, EfTEN Real Estate Fund AS (ticker: EFT1T) was listed on the Nasdaq Baltic Main List as a closed-end AIF. In 2023, EfTEN Real Estate Fund AS merged with EfTEN Kinnisvarafond AS, which more than doubled the assets and the equity. Today, EfTEN Group has close to 50 employees who manage six real estate funds (EfTEN Real Estate Fund AS is one of them) from offices in all three Baltic States.



Source: Company reports, Enlight Research

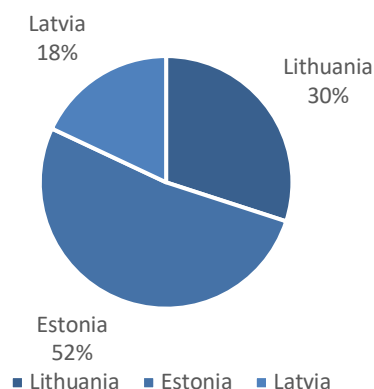
### Property portfolio

At the end of H1/23, the fund had 35 properties with an acquisition cost of EUR 349m and a fair value of EUR 361m (3.5% higher than acquisition cost). By sector, the retail, the logistics, and the office sector make up roughly one third each. By country, Estonia is the largest with about half of the portfolio, followed by Lithuania (30%), and Latvia (18%).



Source: Company reports

EfTEN Real estate portfolio by country at end of H1/23



Source: Company reports, Enlight Research

#### Property portfolio as of H1/23

Property	Group ownership	Fair value	NLA	Rental revenue	Occupancy
Premia Kilmhoone	100%	6,680	7,258	556	100%
Kuuli 10, Tallinn	100%	11,340	15,197	877	100%
Betooni 1a, Tallinn	100%	9,130	10,678	704	100%
Betooni 6, Tallinn	100%	8,800	16,482	785	98%
Jurkalne Technology Park, Riga	100%	23,850	44,088	2,374	99%
DSV logistics centre, Vilnius	100%	9,350	11,751	741	100%
DSV logistics centre, Tallinn	100%	13,380	16,014	1,059	100%
DSV logistics centre, Riga	100%	8,550	12,149	783	100%
Piepilsetas logistics centre, Kekava	100%	8,490	13,380	742	100%
Ramygalos logistics centre, Panevžys	100%	10,650	20,126	842	100%
<b>Total logistics</b>	<b>100%</b>	<b>110,220</b>	<b>167,123</b>	<b>9,463</b>	<b>100%</b>

Source: Company reports

Property	Group ownership	Fair value	NLA	Rental revenue	Occupancy
Võru Rautakesko	100%	2,760	3,120	262	100%
Uku centre, Viljandi	100%	13,990	8,940	1,184	100%
Mustika centre, Tallinn	100%	36,650	27,560	3,081	99%
RAF Centrs, Jelgava	100%	9,360	6,225	1,033	99%
Tammsaare tee Rautakesko, Tallinn	100%	15,660	9,120	1,309	100%
Jelgava development project, Jelgava	100%	2,342			
Saules Miestas Shopping centre, Šiauliai	100%	36,870	20,294	3,514	98%
Laagri Selver, Tallinn	100%	7,770	3,059	540	100%
Hortes gardeding centre, Laagri	100%	3,750	3,470	298	100%
Hortes gardeding centre, Tallinn	100%	5,600	5,300	435	100%
ABC Motors Autokeskus, Tallinn	100%	3,210	2,149	300	100%
<b>Total retail</b>	<b>100%</b>	<b>137,662</b>	<b>89,237</b>	<b>11,956</b>	<b>99%</b>
Lauteri 5, Tallinn	100%	5,760	3,882	425	91%
Pärnu mnt 105, Tallinn	100%	7,690	4,779	636	95%
Pärnu mnt 102, Tallinn	100%	14,990	9,440	1,169	79%
Terbata office builing, Riga	100%	8,790	6,057	703	89%
Menulio 11, Vilnius	100%	7,960	5,617	634	96%
Ulonu office builing, Vilnius	100%	9,130	5,290	691	97%
L3 office builing, Vilnius	100%	10,551	6,150	814	97%
Evolution office builing, Vilnius	100%	11,640	6,614	955	97%
airBaltic office builing, Riga	100%	6,850	6,217	569	100%
Rutkausko office builing, Vilnius	100%	12,990	6,812	952	100%
<b>Total office</b>	<b>100%</b>	<b>96,351</b>	<b>60,798</b>	<b>7,458</b>	<b>93%</b>
Pirita Pansionaat, Tallinn	100%	6,200	5,983	485	100%
Valkla Sūdamekodu, Valkla	100%	3,110	4,423	268	100%
Tartu Sūdamekodu, Tartu	100%	465			
<b>Total care homes</b>	<b>100%</b>	<b>9,775</b>	<b>10,406</b>	<b>753</b>	<b>100%</b>
Rakvere Police and rescue common building (national)	100%	7,490	5,775	836	100%
Hotel Palace, Tallinn (hotels)	50%	9,800	4,874	474	100%
<b>Total other</b>		<b>17,290</b>	<b>10,649</b>	<b>1,310</b>	
<b>Total investments portfolio</b>		<b>371,298</b>	<b>338,213</b>	<b>30,940</b>	<b>98%</b>

Source: Company reports

No client makes up more than 6% of the rental income. The top 3 clients make up 17% of rental income, and the top 10 clients make up 36% of the rental income.

No	Ten largest tenants as of H1/23	Sector	Share of rental income
1	Livonia Print SIA	Print	5.9%
2	Kesko Senukai Estonia AS	Retail - Home improvement (DIY)	5.7%
3	Prisma Peremarket AS	Retail - Food	5.0%
4	DSV Estonia AS	Logistics	3.5%
5	Logistika Plus OU	Logistics	2.9%
6	Adax UAB	Manufacturing - Heating equipment	2.8%
7	Riigi Kinnisvara Aktiaselts	Real Estate - State owned	2.7%
8	DHL Logistics Estonia OU	Logistics	2.5%
9	DSV Latvia SIA	Logistics	2.5%
10	DSV Lithuania UAB	Logistics	2.5%
	<b>Total</b>		<b>36.0%</b>

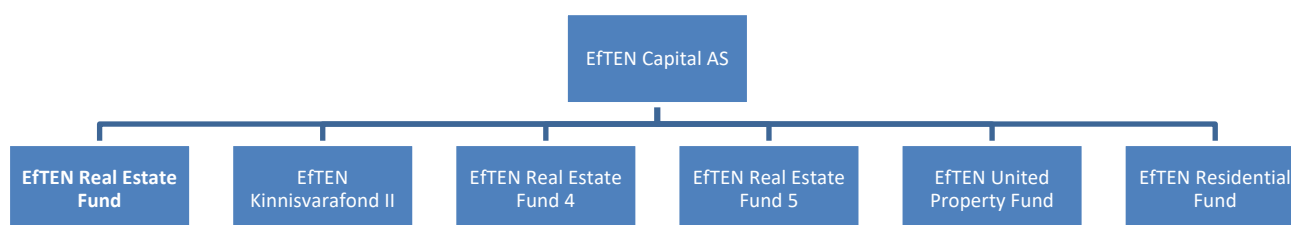
Source: Company reports

### Organizational structure

EFTEN Capital AS is a fund management company responsible for managing six real estate funds, including the listed EFTEN Real Estate Fund (subject of this report). The EFTEN United Property Fund is listed on the Nasdaq Baltic fund list. There are five members of the Supervisory Board of EFTEN Capital AS – Hannes Tamjärv (Chairman), Jaan Pillesaar, Arti Arakas, Peeter Mänd, and Olav Miil – all have decades of experience from doing business in the Baltic region, including the real estate sector. There are three members of the Management Board of EFTEN Capital AS – Viljar Arakas (Chairman & main founder), Kristjan Tamla (Managing Director), and Maie Talts (Lawyer).

The EFTEN Real Estate Fund AS also has a Supervisory Board and a Management Board. The Supervisory Board consist of the following four members: Arti Arakas (Chairman), Olav Miil, Siive Penu, and Sander Rebane. The Management Board consist of Viljar Arakas and Tõnu Uustalu.

#### EFTEN Capital AS real estate funds structure



Source: EFTEN reports

### Largest shareholders

EFTEN Real Estate Fund AS has one share class. At the end of H1/23, there were 6,659 shareholders. Three shareholders held more than 10% of the shares for a total ownership of 36.1%. LHV pension fund is the largest owner with 15.2% of the shares. LHV is the largest locally owned bank in Estonia. REF Aktsiad OÜ is the holding company of Olav Miil, one of the EFTEN founders and Supervisory Board Members. Altiuse KVI OÜ is the holding company of Arti Arakas (one of EFTEN's founders and Supervisory Board Members) and Frank Õim.

<b>Largest shareholders as of 30.06.2023</b>	<b>Shares (m)</b>	<b>Ownership</b>
LHV Pensionifondid	1.7	15.3%
REF Aktsiad OÜ	1.2	10.6%
Altiuse KVI OÜ	1.1	10.1%
<b>Total</b>	<b>3.9</b>	<b>36.1%</b>

Source: EFTEN reports



## Risk factors

Below are the risk factors we find the most relevant given the current environment. For additional risk factors, we recommend reading the company reports and listing documents.

### Interest rate risk

Interest expenses has a great impact on the feasibility of cash flow assets. The sharp increase in the Euribor rates have pressured real estate valuations. A further increase in the interest rate could hurt the fund's net income and pressure the valuation of its property portfolio.

### Liquidity risk

A high interest rate environment can affect the liquidity of real estate, as transaction volumes usually decline. In Baltic markets, commercial real estate liquidity is lower than in e.g., Scandinavia and Western Europe

### Operational risk (occupancy change)

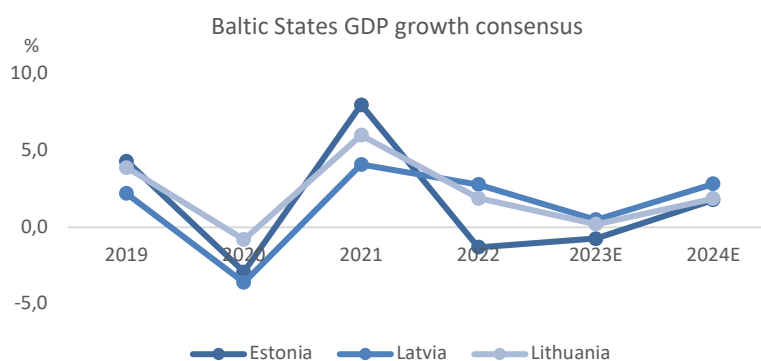
A significant downturn in the economy could lead to declining occupancy levels. This means less rental revenue for the fund. A lower occupancy rate could also lead to a breach of bank covenants.

### New work habits

The work from home trend might hurt the occupancy rate as it could lower the demand for office space.

### GDP growth

Decreased Baltic States GDP growth can result in lower tenants' income and reduce their ability to pay currently set rent levels.



Source: SEB, Bank of Lithuania, IMF, Swedbank

### Properties development

Property development entails risk of delays and higher costs. These risks can result in delayed rental income and longer property payback time.

### Tax risk

EfTEN owns real estate assets in Estonia, Latvia, and Lithuania where each country has its own tax system. Higher taxes on income or real estate property could potentially decrease profits.

Income Statement	2021	2022	2023E	2024E	2025E
Rental income	12.2	13.5	30.8	31.5	32.3
Total operating costs	-2.0	-1.7	-4.4	-4.4	-4.6
EBITDA	10.2	11.8	26.4	27.1	27.8
Depreciation & Amort.	-0.1	0.0	-0.1	-0.2	-0.2
One-off EBIT items	0.0	0.0	0.0	0.0	0.0
EBIT	10.1	11.8	26.3	26.9	27.6
Financial net/value chgs	4.8	1.4	-14.1	-7.8	-7.3
Pre-tax profit	14.9	13.2	12.2	19.1	20.3
Taxes	-1.8	-1.8	-2.0	-2.3	-2.4
Minority interest	0.0	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.0	0.0	0.0
Net profit	13.1	11.4	10.2	16.8	17.9

Balance Sheet	2021	2022	2023E	2024E	2025E
Cash and cash equivalent	13	11	13	13	14
Receivables	1	2	2	2	2
Inventories	0	0	0	0	0
Other current assets	0	0	0	0	0
Current assets	14	13	15	15	15
Tangible assets	162	169	364	366	368
Goodwill & intangible assets	0	0	0	0	0
Lease & Investment properties	0	0	0	0	0
Investments	0	0	2	2	2
Associated companies	0	0	0	0	0
Other non-current assets	0	0	1	1	1
Total fixed assets	162	169	367	369	371
Total Assets	176	182	381	384	386
Non-interest bearing current liabilities	0	0	0	0	0
Short-term debt	8	22	36	34	32
Other current liabilities	1	1	1	1	1
Total current liabilities	9	24	38	36	33
Long-term debt	63	46	76	71	66
Convertibles & Lease liab.	0	0	0	0	0
Deferred tax liabilities	6	7	7	7	7
Provisions	0	0	0	0	0
Other long-term liabilities	1	1	1	1	1
Total long-term liab.	70	54	84	79	74
Total Liabilities	79	78	122	115	108
Minority interest (BS)	0	0	0	0	0
Shareholders' equity	97	104	260	269	278
Total liabilities and equity	176	182	381	384	386

DCF valuation	Cash flow, mEUR		
WACC (%)	8.93 %	NPV FCF (2023-2025)	69
Assumptions 2023-2029 (%)		NPV FCF (2026-2032)	95
Sales CAGR	2.84 %	NPV FCF (2033-)	141
Avg. EBIT margin	84.85 %	Non-operating assets	0
Fair value per share (EUR)	21.84	Interest-bearing debt	-68
Share price (EUR)	17.90	Fair value estimate	236

Free Cash Flow	2021	2022	2023E	2024E	2025E
Operating profit	10.1	11.8	26.3	26.9	27.6
Depreciation & Amort.	0.1	0.0	0.1	0.2	0.2
Working capital chg.	0.2	-0.4	-0.2	0.0	0.0
Other Operating CF items	-0.7	-0.8	-2.8	-3.2	-3.3
Operating Cash Flow	9.6	10.7	23.4	23.8	24.4
Net investments	-17.8	-7.0	-197.8	-2.0	-2.0
Other items	0.0	0.0	206.5	0.0	0.0
Free Cash Flow	-8.2	3.7	32.1	21.8	22.4

Capital structure	2021	2022	2023E	2024E	2025E
Equity ratio	54.9%	57.3%	68.1%	70.1%	72.1%
Debt / Equity ratio	73.4%	65.2%	43.2%	39.1%	35.1%
Gearing %	59.9%	54.3%	38.2%	34.1%	30.2%
Net debt/EBITDA	5.7	4.8	3.8	3.4	3.0

Profitability	2021	2022	2023E	2024E	2025E
ROE	15.6%	11.3%	5.6%	6.4%	6.5%
FCF yield	-7.1%	3.7%	16.6%	11.3%	11.6%
EBITDA margin	83.5%	87.6%	85.7%	85.9%	85.9%
EBIT margin	82.9%	87.3%	85.5%	85.4%	85.4%
PTP margin	122.1%	97.9%	39.6%	60.6%	62.8%
Net margin	107.7%	84.6%	33.1%	53.4%	55.3%

Valuation	2021	2022	2023E	2024E	2025E
P/E	8.2	8.8	19.0	11.5	10.8
P/E, adjusted	8.2	8.8	19.0	11.5	10.8
P/Sales	8.8	7.4	6.3	6.1	6.0
EV/Sales	14.3	11.6	9.7	9.2	8.8
EV/EBITDA	17.1	13.3	11.3	10.8	10.2
EV/EBIT	17.2	13.3	11.4	10.8	10.3
P/BV	1.2	1.0	0.7	0.7	0.7
P/BV tangible	1.2	1.0	0.7	0.7	0.7

Per share ratios	2021	2022	2023E	2024E	2025E
EPS	2.79	2.25	0.94	1.55	1.65
EPS, adjusted	2.79	2.25	0.94	1.55	1.65
Operating CF/share	1.89	2.10	2.16	2.20	2.26
Free Cash Flow/share	-1.62	0.73	2.96	2.02	2.07
BV/share	19.11	20.55	23.99	24.85	25.73
Tangible BV/share	19.11	20.55	23.99	24.85	25.73
Div. per share	0.80	1.15	0.70	0.77	0.87
Div. payout ratio	31.0%	51.3%	73.8%	49.8%	52.8%
Dividend yield	3.5%	5.8%	3.9%	4.3%	4.9%

Shareholders	Capital	Votes
LHV Pension Fund	29.671	15.32 %
REF Aktsiad OÜ	20.607	10.64 %
Altiuse KVI OÜ	19.561	10.10 %
Järve Kaubanduskeskus OÜ	13.383	6.91 %
Trio Holding OÜ	11.001	5.68 %

Key people	
CEO	Kristjan Tamla
CFO	Marilyn Hein
IR	Kristjan Tamla
Chairman	Viljar Arakas

<b>P/E</b> $\frac{\text{Price per share}}{\text{Earnings per share}}$	<b>EPS</b> $\frac{\text{Profit before extraordinary items and taxes – income taxes + minority interest}}{\text{Number of shares}}$
<b>P/Sales</b> $\frac{\text{Market cap}}{\text{Sales}}$	<b>DPS</b> Dividend for financial period per share
<b>P/BV</b> $\frac{\text{Price per share}}{\text{Shareholders' equity + taxed provisions per share}}$	<b>CEPS</b> $\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
<b>P/CF</b> $\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	<b>EV/Share</b> $\frac{\text{Enterprise value}}{\text{Number of shares}}$
<b>EV (Enterprise value)</b> Market cap + Net debt + Minority interest at market value – share of associated companies at market value	<b>Sales/Share</b> $\frac{\text{Sales}}{\text{Number of shares}}$
<b>Net debt</b> Interest-bearing debt – financial assets	<b>EBITDA/Share</b> $\frac{\text{Earnings before interest, tax, depreciation and amortization}}{\text{Number of shares}}$
<b>EV/Sales</b> $\frac{\text{Enterprise value}}{\text{Sales}}$	<b>EBIT/Share</b> $\frac{\text{Operating profit}}{\text{Number of shares}}$
<b>EV/EBITDA</b> $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	<b>EAFI/Share</b> $\frac{\text{Pre-tax profit}}{\text{Number of shares}}$
<b>EV/EBIT</b> $\frac{\text{Enterprise value}}{\text{Operating profit}}$	<b>Capital employed/Share</b> $\frac{\text{Total assets – non-interest-bearing debt}}{\text{Number of shares}}$
<b>Div yield, %</b> $\frac{\text{Dividend per share}}{\text{Price per share}}$	<b>Total assets</b> Balance sheet total
<b>Payout ratio, %</b> $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes – income taxes + minority interest}}$	<b>Interest coverage (x)</b> $\frac{\text{Operating profit}}{\text{Financial items}}$
<b>Net cash/Share</b> $\frac{\text{Financial assets – interest-bearing debt}}{\text{Number of shares}}$	<b>Asset turnover (x)</b> $\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
<b>ROA, %</b> $\frac{\text{Operating profit + financial income + extraordinary items}}{\text{Balance sheet total – interest-free short-term debt – long-term advances received and accounts payable (average)}}$	<b>Debt/Equity, %</b> $\frac{\text{Interest-bearing debt}}{\text{Shareholders' equity + minority interest + taxed provisions}}$
<b>ROCE, %</b> $\frac{\text{Profit before extraordinary items + interest expenses + other financial costs}}{\text{Balance sheet total – non-interest-bearing debt (average)}}$	<b>Equity ratio, %</b> $\frac{\text{Shareholders' equity + minority interest + taxed provisions}}{\text{Total assets – interest-free loans}}$
<b>ROE, %</b> $\frac{\text{Profit before extraordinary items – income taxes}}{\text{Shareholders' equity + minority interest + taxed provisions (average)}}$	<b>CAGR, %</b> Cumulative annual growth rate = Average growth rate per year

## Disclaimer

Enlight Research OÜ's main valuation methods are discounted cash flow valuation and peer valuation with common multiples such as Price to Earnings, Enterprise Value to EBITDA, dividend yield etc. Aforementioned methods are used to estimate a company's fair value according to the following three scenarios: Bull (positive), Base (main scenario), and Bear (negative).

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