

# Capital Park

## Development on schedule with a new one ahead

We maintain a BUY recommendation on Capital Park and FV trimmed to PLN 8.19 per share from PLN 8.25 previously. We note that the valuation of the company's income-generating properties was not significantly affected by the coronavirus outbreak. At the same time, the company is developing its Fabryka Norblina project in line with the schedule (completion planned for 2Q21) and continues its commercialization (pre-lease of 66% as of end-3Q20). Additionally, the company reported that it has signed a preliminary agreement for the purchase of the Hak Polski landplot in Gdańsk and plans to develop it as a residential project; however, no more details have been given yet. As a major trigger in the coming quarters, we point to further development of the Fabryka Norblina project and potential disposal of assets held for sale. Given the above-mentioned we do not find the developer's valuation at an approximate 30% discount to its peers to be fully justified.

### Development of Fabryka Norblina project

The book value of the Fabryka Norblina project amounted to PLN 818m as of end-3Q20. The company pointed out that the development is going according to plan and completion of the project scheduled for 2Q21 remains unchanged. The company estimates remaining capex of PLN 466m to be carried out in the coming quarters. Capital Park has already secured pre-lease agreements for 66% of the total area (71% of office area and 57% of retail area), accounting for nearly 70% of target NOI. We estimate that completion of the project should result in a ca. PLN 30m positive revaluation in 2021E.

### Potential acquisition of Hak Polski project

The company signed preliminary agreement for purchase of two landplots in Gdańsk with total land area of 13,300sqm ("Hak Polski" at the mouth of Motława river to Martwa Wisła). The company is planning the development of a premium residential project; however, no details have been released, as the company is still in negotiations for a new masterplan for the area. Given the lack of details, we do not yet include the project into our forecasts or valuation.

### Disposals put on hold

Capital Park had two projects held for sale as of end-3Q20: Royal Wilanów and Eurocentrum Hotels & Residence (with a total book value of PLN 575m. As far as Royal Wilanów is concerned (NAV of nearly PLN 200m or PLN 5.3/share), Capital Park is currently working on a disposal and simultaneously is negotiating an extension of lease agreements (occupancy rate of 98% with WAULT of 3.6). At the same time, the company has the Eurocentrum project under negotiation with a potential transaction still to be closed in 2020 (book value of PLN 85m). We note that proceeds from these potential transactions may be utilized not only for new development, but for additional dividend payments as well.

Figure 1. Capital Park – Financial summary (PLNm)

	2018	2019	2020E	2021E	2022E	2023E
Revenues	145.8	123.7	51.6	70.0	120.8	122.4
EBITDA	172.4	367.9	71.8	75.9	73.6	74.1
EBIT	172.0	367.3	71.2	75.3	73.0	73.4
Net profit	85.3	262.9	5.4	56.2	43.1	44.1
P/E (x)	14.6	4.9	48.9	28.9	17.7	17.3
P/BV (x)	0.57	0.55	0.75	0.71	0.68	0.66
DPS (PLN)	0.00	0.00	2.10	0.00	0.00	0.00

Source: Company, IPOPEMA Research

Real Estate

## Capital Park

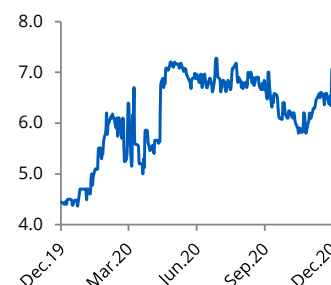
BUY

FV PLN 8.19 from PLN 8.25

16% upside

Price as of 4 December 2020 PLN 7.06

BUY maintained



### Share data

Number of shares (m)	108.3
Market cap (EUR m)	170.0
12M avg daily volume (k)	12.9
12M avg daily turnover (EUR m)	0.02
12M high/low (PLN)	7.58/4.96
WIG weight	0.04
Reuters	CPGP.WA
Bloomberg	CPG PW

### Total performance

1M	13.9%
3M	3.2%
12M	42.7%

### Shareholders

MIRELF VI BV	66.43%
Europi Property Group AB	14.02%
Patron Townsend S.a.r.l	6.51%
Management Board	3.69%
Other	9.35%

### Analyst

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**CAPITAL PARK****BUY****FV PLN 8.19**

Mkt Cap EUR 170m

Upside 16%

Valuation multiples	2019	2020E	2021E	2022E	2023E
P/E (x)	4.9	48.9	28.9	17.7	17.3
EV/EBITDA (x)	2.4	14.5	18.8	18.9	18.3
EV/Sales (x)	7.1	20.2	20.4	11.5	11.0
P/BV (x)	0.55	0.75	0.71	0.68	0.66
FCF yield (%)	180%	-12%	-50%	8%	8%
DY (%)	0%	30%	0%	0%	0%

Per share	2019	2020E	2021E	2022E	2023E
No. of shares (m units)	108.3	108.3	108.3	108.3	108.3
EPS* (PLN)	1.30	0.14	0.24	0.40	0.41
BVPS (PLN)	11.45	9.40	9.92	10.32	10.73
FCFPS (PLN)	11.44	-0.88	-3.51	0.55	0.56
DPS (PLN)	0.00	2.10	0.00	0.00	0.00

Change y/y (%)	2019	2020E	2021E	2022E	2023E
Revenues	-15.2%	-58.3%	35.8%	72.5%	1.3%
NOI	-15.5%	-59.5%	36.0%	72.5%	1.3%
EBIT adj.*	120.9%	-87.1%	46.0%	89.0%	0.6%
Pre-tax profit	237.4%	n.m.	n.m.	-23.3%	2.3%
Net profit adj.*	268.2%	-88.9%	69.3%	63.0%	2.3%

Leverage and return	2019	2020E	2021E	2022E	2023E
NOI margin (%)	74.2%	72.0%	72.1%	72.1%	72.1%
EBIT adj.* margin (%)	165.6%	51.3%	55.1%	60.4%	59.9%
Net margin adj.* (%)	114.2%	30.3%	37.8%	35.7%	36.0%
Net debt / EBITDA adj.*(x)	0.9	10.2	16.9	8.5	7.9
Net debt / Equity (x)	0.15	0.27	0.62	0.56	0.51
Net debt / Assets (x)	0.09	0.13	0.30	0.28	0.26
ROE (%)	12.8%	1.4%	2.5%	3.9%	3.9%
ROA (%)	6.0%	0.7%	1.2%	1.9%	1.9%
ROIC (%)	7.8%	1.8%	1.7%	3.6%	3.6%

Assumptions	2019	2020E	2021E	2022E	2023E
FFO (PLN m)	176.6	19.3	32.7	53.2	54.5
FFO yield (%)	26%	3%	5%	8%	8%
NAV (PLN m)	1,240.8	997.4	1,051.6	1,089.3	1,133.2
NAV per share (PLN)	11.5	9.2	9.7	10.1	10.5
LTV (%)	82%	56%	47%	47%	46%

P&L (PLN m)	2018	2019	2020E	2021E	2022E	2023E
Rental income	145.8	123.7	51.6	70.0	120.8	122.4
Direct property operating expenses	-37.3	-32.0	-14.4	-19.5	-33.7	-34.2
<b>Net operating profit</b>	<b>108.6</b>	<b>91.8</b>	<b>37.1</b>	<b>50.5</b>	<b>87.1</b>	<b>88.3</b>
Administrative expenses	-8.4	-21.1	-12.5	-13.1	-13.8	-14.5
Gain/loss on property revaluation	79.2	162.4	44.8	36.7	0.0	0.0
Other operating income (cost) net	-7.5	134.2	1.8	1.2	-0.4	-0.4
<b>EBITDA</b>	<b>172.4</b>	<b>367.9</b>	<b>71.8</b>	<b>75.9</b>	<b>73.6</b>	<b>74.1</b>
<b>EBIT</b>	<b>172.0</b>	<b>367.3</b>	<b>71.2</b>	<b>75.3</b>	<b>73.0</b>	<b>73.4</b>
EBIT adj.*	92.8	204.9	26.4	38.6	73.0	73.4
Financial income (cost) net	-38.3	-30.5	-7.1	-5.9	-19.7	-18.9
Remeasurement of fin. liabilities	-37.1	-11.1	-57.5	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>96.5</b>	<b>325.7</b>	<b>6.6</b>	<b>69.4</b>	<b>53.2</b>	<b>54.5</b>
Income tax	-5.5	-62.8	-1.3	-13.2	-10.1	-10.4
Minorities	5.7	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>85.3</b>	<b>262.9</b>	<b>5.4</b>	<b>56.2</b>	<b>43.1</b>	<b>44.1</b>
Net profit adj.*	38.4	141.3	15.6	26.5	43.1	44.1

BALANCE SHEET (PLN m)	2018	2019	2020E	2021E	2022E	2023E
<b>Non-current assets</b>	<b>2,420.4</b>	<b>983.2</b>	<b>1,119.8</b>	<b>1,562.5</b>	<b>1,565.6</b>	<b>1,568.6</b>
Investment property	2,360.2	890.8	1,036.7	1,477.0	1,477.0	1,477.0
Investments in jointly controlled enti	54.2	51.1	41.7	44.3	47.3	50.3
Other financial assets at fair value	0.7	33.1	33.1	33.1	33.1	33.1
Other non-current assets	5.3	8.2	8.2	8.2	8.2	8.2
<b>Current assets</b>	<b>149.5</b>	<b>615.4</b>	<b>354.5</b>	<b>68.6</b>	<b>110.2</b>	<b>151.4</b>
Trade receivables	16.1	6.6	2.8	3.8	6.5	6.6
Other current assets	23.1	17.9	11.9	13.5	17.8	17.9
Cash and equivalents	110.3	591.0	339.8	51.3	86.0	126.9
Assets held for sale	0.0	543.4	574.8	574.8	574.8	574.8
<b>Total assets</b>	<b>2,569.9</b>	<b>2,142.0</b>	<b>2,049.1</b>	<b>2,205.9</b>	<b>2,250.6</b>	<b>2,294.7</b>
<b>Equity</b>	<b>974.9</b>	<b>1,240.8</b>	<b>1,018.7</b>	<b>1,074.9</b>	<b>1,118.0</b>	<b>1,162.1</b>
Non-controlling interests	114.9	0.0	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>1,417.1</b>	<b>402.5</b>	<b>515.8</b>	<b>615.8</b>	<b>615.8</b>	<b>615.8</b>
Loans and borrowings	1,282.2	295.6	408.9	508.9	508.9	508.9
Deferred tax liabilities	110.0	90.5	90.5	90.5	90.5	90.5
Other non-current liabilities	24.9	16.3	16.3	16.3	16.3	16.3
<b>Current liabilities</b>	<b>63.0</b>	<b>215.6</b>	<b>215.3</b>	<b>215.9</b>	<b>217.4</b>	<b>217.5</b>
Trade payables	7.6	3.6	1.6	2.2	3.8	3.8
Loans and borrowings	43.2	192.7	194.3	194.3	194.3	194.3
Other current liabilities	12.2	19.4	19.4	19.4	19.4	19.4
Liabilities related to assets for sale	0.0	283.0	299.4	299.4	299.4	299.4
<b>Equity &amp; liabilities</b>	<b>2,569.9</b>	<b>2,142.0</b>	<b>2,049.1</b>	<b>2,205.9</b>	<b>2,250.6</b>	<b>2,294.7</b>
Gross debt (PLN m)	1,330.7	782.9	614.7	714.7	714.7	714.7
<b>Net debt (PLN m)</b>	<b>1,220.4</b>	<b>191.9</b>	<b>274.9</b>	<b>663.4</b>	<b>628.8</b>	<b>587.8</b>

CASH FLOW (PLN m)	2018	2019	2020E	2021E	2022E	2023E
<b>Operating cash flow</b>	<b>106.2</b>	<b>85.8</b>	<b>-17.1</b>	<b>25.1</b>	<b>59.8</b>	<b>66.1</b>
Net income	85.3	262.9	5.4	56.2	43.1	44.1
Revaluations	-42.1	-151.3	-44.8	-36.7	0.0	0.0
D&A	0.4	0.6	0.6	0.6	0.6	0.7
Change in WC	-13.2	5.5	1.8	-0.4	-1.2	0.0
Other	75.8	-31.9	19.9	5.4	17.2	21.3
<b>Investment cash flow</b>	<b>-115.1</b>	<b>385.6</b>	<b>-123.8</b>	<b>-406.6</b>	<b>-3.6</b>	<b>-3.7</b>
Change in investment properties	-106.6	1,088.5	-132.6	-403.5	0.0	0.0
Change in JV	-11.5	3.1	9.4	-2.5	-3.0	-3.0
Other	3.0	-705.9	-0.6	-0.6	-0.6	-0.7
<b>Financial cash flow</b>	<b>-74.1</b>	<b>22.5</b>	<b>-110.2</b>	<b>93.0</b>	<b>-21.4</b>	<b>-21.4</b>
Change in equity	0.0	0.0	0.0	0.0	0.0	0.0
Change in debt	-31.9	61.8	131.2	100.0	0.0	0.0
Dividend paid	0.0	0.0	-227.5	0.0	0.0	0.0
Interest paid	-42.3	-39.3	-13.9	-7.0	-21.4	-21.4
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Change in cash</b>	<b>-83.0</b>	<b>493.9</b>	<b>-251.2</b>	<b>-288.5</b>	<b>34.7</b>	<b>40.9</b>
<b>Cash as of eop</b>	<b>110.3</b>	<b>591.0</b>	<b>339.8</b>	<b>51.3</b>	<b>86.0</b>	<b>126.9</b>

Source: Company data, IPOPEMA Research, \*adjusted by revaluation of investment properties and remeasurement of financial liabilities

# Valuation

We value Capital Park using the NAV valuation method (100% weight) and a multiples valuation (0% weight only for presentation purposes).

**Figure 2. Capital Park – Valuation summary**

Valuation method	Weight (%)	FV (PLN/share)
NAV valuation	100%	8.19
Multiples valuation	0%	6.53
<b>Fair value</b>		<b>8.19</b>
Current price		7.06
Upside/downside		16%

Source: Company, IPOPEMA Research

## NAV valuation

We base our NAV on the fair value of the company's properties deducting financial liabilities, deferred tax liabilities and provisions for each respective year. Our valuation includes the development of the ArtN project (assuming completion in 1H21) and excludes the development of the Eurocentrum Hotel & Residence project. We arrive at a FV for Capital Park of PLN 8.19 per share using the NAV method.

**Figure 3. Capital Park – NAV valuation (PLN m)**

(PLNm)	2020E	2021E	2022E	2023E	2024E	2025E
(+) Investment property	1,036.7	1,477.0	1,477.0	1,477.0	1,477.0	1,477.0
(+) Investments in jointly controlled entities	41.7	44.3	47.3	50.3	52.6	55.0
(+) Financial assets	33.1	33.1	33.1	33.1	33.1	33.1
(+) Cash and cash equivalents	339.8	51.3	86.0	126.9	168.7	210.7
(+) Assets held for sale	275.4	275.4	275.4	275.4	275.4	275.4
(-) Long-term debt	418.4	518.4	518.4	518.4	518.4	518.4
(-) Short-term debt	196.3	196.3	196.3	196.3	196.3	196.3
(-) Deferred tax liabilities & provisions	114.7	114.7	114.7	114.7	114.7	114.7
(-) Non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0
<b>(=) NAV (PLNm)</b>	<b>997.4</b>	<b>1,051.6</b>	<b>1,089.3</b>	<b>1,133.2</b>	<b>1,177.4</b>	<b>1,221.7</b>
Number of shares (m)	108.3	108.3	108.3	108.3	108.3	108.3
NAV/share (PLN)	9.21	9.71	10.05	10.46	10.87	11.28
Discount factor	99%	91%	83%	76%	70%	64%
NAV/share (PLN)	9.2	8.8	8.4	8.0	7.6	7.2
<b>FV (PLN)</b>	<b>8.19</b>					
Current price (PLN)	7.06					
Upside/downside (%)	16%					

Source: Company, IPOPEMA Research

**Figure 4. Capital Park – WACC calculation**

	2020E	2021E	2022E	2023E	2024E	2025E
Risk free rate (%)	1.6%	1.6%	1.6%	1.6%	1.6%	2.5%
Levered beta (x)	1.5	1.5	1.5	1.5	1.5	1.5
Risk premium (%)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
<b>Cost of Equity (%)</b>	<b>9.0%</b>	<b>9.3%</b>	<b>9.2%</b>	<b>9.1%</b>	<b>9.0%</b>	<b>9.8%</b>
Cost of Debt (%)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Tax rate (%)	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
<b>After tax cost of debt (%)</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.1%</b>
<b>WACC (%)</b>	<b>7.2%</b>	<b>7.2%</b>	<b>7.2%</b>	<b>7.2%</b>	<b>7.2%</b>	<b>7.7%</b>

Source: Company, IPOPEMA Research

**Figure 5. NAV/share valuation sensitivity (PLN)**

Percentage change of rental rate (EUR/sqm)	Yield (%)					
	-5.0%	-0.50%	-0.25%	0.00%	0.25%	0.50%
-5.0%	8.17	8.16	8.15	8.15	8.14	8.13
-2.5%	8.19	8.18	8.17	8.17	8.16	8.15
<b>0.0%</b>	<b>8.22</b>	<b>8.20</b>	<b>8.19</b>	<b>8.19</b>	<b>8.18</b>	<b>8.17</b>
2.5%	8.24	8.22	8.21	8.21	8.20	8.19
5.0%	8.26	8.24	8.23	8.23	8.22	8.21

Source: Company, IPOPEMA Research

Figure 6. NAV/share valuation sensitivity on EUR/PLN in terminal (PLN)

NAV/share	EUR/PLN (x)								
	4.20	4.25	4.30	4.35	4.40	4.45	4.50	4.55	4.60
	8.11	8.12	8.13	8.15	8.16	8.18	<b>8.19</b>	8.33	8.47

Source: Company, IPOPEMA Research

## Peer comparison

We present a multiple valuation by comparing Capital Park to Polish and European commercial developers, based on the P/BV multiple. Due to different business models and scale of operation, we give 0% weight to the method. Based on the P/BV valuation, Capital Park currently trades at around 30% discount to its BV in 2020-21E.

Figure 7. Capital Park – Peer comparison

Company	BBG Ticker	Price	mCap	P/BV (x)		
		(local)	(PLNm)	2020E	2021E	2022E
Echo Investment	ECH PW Equity	4.09	1,688	0.98	0.90	0.84
Globe Trade Centre	GTC PW Equity	6.50	3,156	0.68	0.64	0.62
Immofinanz AG	IIA AV Equity	16.57	9,133	0.63	0.64	0.62
CA Immobilien	CAI AV Equity	29.30	12,942	0.90	0.86	0.85
Unibail-Rodamco-Westfield	URW NA Equity	63.06	39,035	0.48	0.63	0.67
Atrium European Real Estate	ATRS AV Equity	2.59	4,472	0.60	0.60	0.60
S Immo	SPI AV Equity	16.32	5,370	0.84	0.84	0.82
Median				0.68	0.64	0.67
<b>Capital Park</b>	<b>CPG PW Equity</b>	<b>7.06</b>	<b>765</b>	<b>0.75</b>	<b>0.71</b>	<b>0.68</b>
Premium/discount (%)				11%	11%	3%
Implied FV/share				6.38	6.35	6.87
Average implied FV/share (PLN)					<b>6.53</b>	

Source: Company, IPOPEMA Research

## Forecast revisions

Below we present the revision of our financial forecasts for 2020-22E. Change of 2020E financial results is mainly related to the change of FX rates (affecting property revaluation and remeasurement of financial liabilities), while increase of 2021E forecasts is mainly related to higher revaluation gain forecast on Fabryka Norblina project. At the same time, we note that adj. forecasts remain broadly unchanged.

Figure 8. Capital Park – financial forecasts revision (PLNm)

	2020E NEW	2020E OLD	change	2021E NEW	2021E OLD	change	2022E NEW	2022E OLD	change
Rental income	51.6	50.4	2%	70.0	66.9	5%	120.8	115.4	5%
Direct property operating expenses	-14.4	-12.8	13%	-19.5	-16.9	16%	-33.7	-29.1	16%
<b>Net operating profit</b>	<b>37.1</b>	<b>37.7</b>	<b>-1%</b>	<b>50.5</b>	<b>50.1</b>	<b>1%</b>	<b>87.1</b>	<b>86.4</b>	<b>1%</b>
Administrative expenses	-12.5	-11.1	13%	-13.1	-12.7	3%	-13.8	-14.6	-6%
Gain/loss on property revaluation	44.8	-3.0	n.m.	36.7	0.3	n.m.	0.0	0.0	n.m.
Other operating income (cost) net	1.8	1.2	47%	1.2	0.5	142%	-0.4	-1.6	-77%
<b>EBITDA</b>	<b>71.8</b>	<b>25.4</b>	<b>183%</b>	<b>75.9</b>	<b>38.7</b>	<b>96%</b>	<b>73.6</b>	<b>70.8</b>	<b>4%</b>
<b>EBIT</b>	<b>71.2</b>	<b>24.8</b>	<b>187%</b>	<b>75.3</b>	<b>38.1</b>	<b>98%</b>	<b>73.0</b>	<b>70.1</b>	<b>4%</b>
<b>EBIT adj.*</b>	<b>26.4</b>	<b>27.8</b>	<b>-5%</b>	<b>38.6</b>	<b>37.8</b>	<b>2%</b>	<b>73.0</b>	<b>70.1</b>	<b>4%</b>
Financial income (cost) net	-7.1	-8.5	-16%	-5.9	-4.8	23%	-19.7	-18.6	6%
Gain/loss on remeasurement of fin. liab.	-57.5	-19.0	n.m.	0.0	15.0	n.m.	0.0	0.0	n.m.
<b>Pre-tax profit</b>	<b>6.6</b>	<b>-2.7</b>	<b>n.m.</b>	<b>69.4</b>	<b>48.2</b>	<b>44%</b>	<b>53.2</b>	<b>51.5</b>	<b>3%</b>
Income tax	-1.3	0.5	n.m.	-13.2	-9.2	44%	-10.1	-9.8	3%
<b>Net profit</b>	<b>5.4</b>	<b>-2.2</b>	<b>n.m.</b>	<b>56.2</b>	<b>39.1</b>	<b>44%</b>	<b>43.1</b>	<b>41.7</b>	<b>3%</b>
<b>Net profit adj.*</b>	<b>15.6</b>	<b>15.6</b>	<b>0%</b>	<b>26.5</b>	<b>26.7</b>	<b>-1%</b>	<b>43.1</b>	<b>41.7</b>	<b>3%</b>

Source: Company, IPOPEMA Research

## Key risk factors

The key risk factors to our valuation and estimates are:

- **Potential pressure on rental rates and yields.** Capital Park operates mainly in the Warsaw office market in Warsaw. Capital Park is developing the ArtN project near the Rondo Daszyńskiego district, where we estimate that around 300k sqm of new office space will have been created by the end of 2021. This may put downward pressure on rental rates in Warsaw, resulting in less favourable yields. Also macro conditions could deteriorate in Poland which could result in the loss of tenants in the existing areas.
- **Delays in development schedule.** The company has two projects in the pipeline, with ArtN under construction and Eurocentrum in the early planning phase. Our forecasts only assume the development of the ArtN project, but any delays (related to administrative issues, construction delays, etc) may create the risk of later recognition of revaluation gains.
- **Risk related to loss of tenants.** Any potential loss of tenants for office and retail space, as well as difficulties in finding such tenants for the vacant space and for development projects, could result in lower rental income and the valuation of the property. In addition, low occupancy rates would impact the company's ability to raise bank financing or dispose of projects.
- **Risk related to the increase of construction costs.** Capital Park's Fabryka Norblina project is under construction. As of end-1Q20, the company estimated the remaining capex for Fabryka Norblina at PLN 538m. Any potential increase in construction costs may result in lower profit recognized on the project and in lower cash generation in the long-term.
- **Risk related to the valuation and the disposal of investment properties.** As of end-2Q19, the value of investment properties accounted for around 90% of the value of total assets. Any inappropriate assumptions might lead to a mis-valuation of property, with the book value not reflecting the fair value properly. Additionally, the revaluation of properties due to different economic conditions could impact the financial results.
- **Changes in the EUR/PLN exchange rate.** The value of investment properties and bank debt is sensitive to the EUR/PLN exchange rate, as the valuation is based on the EUR denominated rents, while the company reports its financial results in PLN. Any increase/decrease in the EUR/PLN exchange rate results in higher/lower respective values of investment properties and financial liabilities denominated in EUR.
- **Risk related to the coronavirus outbreak.** We direct attention to the possibility that the coronavirus outbreak may change the habits of customers in retail projects, as well as demand for office area. Additionally, it may result in postponement of transactions.
- **Shareholder structure.** In March 2019, Madison International Realty LLC, a global real estate investment company, signed a preliminary agreement regarding the acquisition of 65.99% of shares in Capital Park S.A. from Patron Capital Partners. The transaction was completed in May 2019 and Madison increased its stake to 66% in July 2019. Furthermore, Madison International Realty has a call option to acquire an additional 5.5% in shares from Patron Townsend S.a.r.l.; however, no further details have been provided.

## ESG Section

Below we present our ESG analysis of Capital Park's operations:

**Environmental.** The company develops its projects in compliance with sustainable building principles throughout the design, construction and operation phases. As a result, the Eurocentrum Office Complex (recently sold) received the highest LEED Platinum 'green' rating, while Royal Wilanów and Fabryka Norblina (project under construction) received BREEAM certificates with 'Very Good' ratings. Capital Park also fosters a responsible attitude among its employees, tenants and local residents (including effective waste management, using rainwater for toilet flushing and plant watering in atria, optimizing electricity and heat consumption using the Virtual Power Plant technology, supporting sustainable transport offering extensive infrastructure for cyclists and electric car drivers, promoting urban beekeeping, and planting of an anti-smog meadow). The company has also developed an Environmental Education Programme and special 'green' guide for tenants to encourage them to actively engage in environmental protection initiatives and to develop eco-friendly habits in their daily life.

**Social responsibility.** The company develops its projects with a focus not only on working and shopping areas, but also creates space for people – integrating local communities, educating them in pro-social and pro-environmental matters, offering cultural entertainment. Capital Park's projects have hosted sport events (charity runs, disease prevention events and campaigns encouraging alternative means of transport), cultural projects (concerts, theatre performances, open air cinema shows), and auctions for the Great Orchestra of Christmas Charity. Finally, the company supports women in the real estate industry and promotes equal opportunities in business.

**Governance.** Capital Park has been listed on the Warsaw Stock Exchange since December 2013. We point at long-term involvement of the board and its experience in property development. The company also regularly holds meeting with the investors after quarterly earnings publications, when the board answers investors' questions. The company publishes its quarterly and annual reports in a timely manner. We also highlight clear accounting standards and the high quality of presented financial data.



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The date and the time stated on the front page is the date of the preparation of this document. The price used throughout the recommendation to calculate adequate ratios is the "last" price stated on the front page of this document.

The definitions of terms used in the document include:

NII – Net interest income – interest income minus interest expense.

Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.



BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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Hold	In between (and including) -10% and 10%
Sell	Below -10%

#### IPOPEMA Research - Distribution by rating category (July 1 – September 30, 2020)

	Number	%
Buy	19	70%
Hold	6	22%
Sell	2	8%
Total	27	100%

#### Rating History – Capital Park

Date	Recommendation	Fair Value	Price at recommendation	Author
30/07/2019	BUY	PLN 8.50	PLN 5.44	Marek Szymański
11/10/2019	BUY	PLN 8.99	PLN 6.13	Marek Szymański
25/05/2020	BUY	PLN 6.89 (adj. on DPS of PLN 2.1)	PLN 6.96	Marek Szymański
22/07/2020	BUY	PLN 8.25	PLN 6.70	Marek Szymański
08/12/2020	BUY	PLN 8.19	PLN 7.06	Marek Szymański