Primecity Investment Plc.

Cyprus / Real Estate
Alternext Paris
Bloomberg: ALPCI FP
ISIN: CY0104972217

Initiation of Coverage

RATING	**BUY**
PRICE TARGET	**€7.50**
Return Potential	108.9%
Risk Rating	Medium

PRIMED FOR ATTRACTIVE GROWTH & PROFITABILITY

Primecity Investment (PCI) specialises in the acquisition and turnaround of underperforming hotels in the German market and is currently the only listed pure play of its kind. The company combines an impressive deal flow pipeline, a proven management team, a solid turnaround track record, and the financial flexibility to react quickly to opportunities and execute its "Buy and Hold" strategy. With strong growth prospects ahead, we commence coverage with a Buy rating and a €7.50 price target (PT).

Portfolio growth generates high cash returns PCI management boast an 11 year track record built upon over 100 successful "acquisition to turnaround" deals. The company has already added a further 16 hotels to its portfolio in 2015, and we model a hotel asset CAGR of 52% for 2015-18. We regard Funds From Operations (FFO) as the most relevant KPI to track profitability and look for this metric to reach €73.5m in 2018 vs €13.6m recorded in 2014.

Attractive revenue growth over the medium term with strong profitability We forecast a revenue CAGR of 53% for 2015-18 with top-line growth of 61% for 2015 spurred by hotel acquisitions and long term (20 year) lease contracts with operating partners. Our adjusted EBITDA (excluding capital gains and revaluations) CAGR for the same period is 53% underscoring the strong link to top-line performance.

Strong financing network and conservative capital structure PCI presently sources debt from seven different banks at a WACD of 3.0%. Moreover, some 90% of these loans are hedged against interest rate risks. The company has also issued €150m in convertible bonds with a 4% coupon and a five year maturity. The PCI Loan-to-Value (LTV) metric stood at 41% (or 15% assuming full conversion of the bond) at the end of Q1/15.

Attractive upside to fair value We contend that PCI is only beginning to leverage its expertise, network, and capital structure. In our view, the current valuation fails to reflect PCI's strengths partly due to its presently low visibility in the capital markets. We commence coverage with a Buy rating and a €7.50 PT.

FINANCIAL HISTORY & PROJECTIONS

	2013A	2014A	2015E	2016E	2017E	2018E
Revenue (€m)	9.87	25.56	41.05	68.46	100.12	138.99
Y-o-y growth	n.a.	158.9%	60.6%	66.8%	46.3%	38.8%
Adj. EBITDA (€m)	7.49	21.74	34.93	58.47	85.80	119.50
Net income (€m)	29.99	103.99	124.95	167.80	231.07	272.76
EPS (basic) (€)	0.30	0.97	1.10	1.36	1.73	1.90
EPRA NAV (€m)	103.04	361.94	555.04	746.52	1009.34	1317.56
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FFO (€m)	3.03	13.55	20.57	35.08	52.69	73.46
Net gearing	73.5%	99.2%	123.1%	114.0%	109.7%	119.5%
Liquid assets (€m)	2.71	63.40	84.86	64.15	45.89	35.95

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, which would affect unhedged financial debt, unfavourable macroeconomic developments, and departure of key personnel.

COMPANY PROFILE

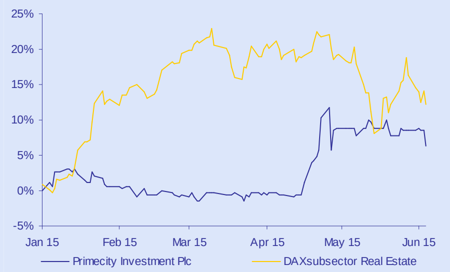
PCI is a specialist hotel investment company focused on investing and repositioning of mismanaged hotel properties primarily in Germany. The hotel properties are located in key locations which enjoy high tourism, business and exhibitions, such as Berlin, Munich, Hamburg, Frankfurt, Dresden, Düsseldorf, Mannheim and Leipzig.

MARKET DATA	As of 6/26/2015
Closing Price	€ 3.59
Shares outstanding	103.30m
Market Capitalisation	€ 370.85m
52-week Range	€ 2.80 / 4.15
Avg. Volume (12 Months)	35,470

Multiples	2014A	2015E	2016E
P/E	3.7	3.3	2.6
EV/Sales	24.5	15.3	9.2
EV/EBITDA[1]	28.9	18.0	10.7
Div. Yield	0.0%	0.0%	0.0%

[1] adjusted for capital gains, revaluations, and other income

STOCK OVERVIEW



COMPANY DATA	As of 31 Mar 2015
Liquid Assets	€ 97.40m
Current Assets	€ 101.80m
EPRA NAV	€ 467.10m
Total Assets	€ 653.80m
Current Liabilities	€ 17.60m
Total Equity	€ 261.60m

SHAREHOLDERS	
Aroundtown Property Holdings Plc	56.0%
Free Float	44.0%

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INVESTMENT CASE

Primed to deliver attractive growth and profitability

PCI offers an opportunity to invest in a property company specialised in the acquisition and repositioning of underperforming hotel assets. The company combines a proven management team with 11 years experience, a tested hotel turnaround strategy, and financial flexibility. PCI has also earned a “preferred buyer” status, which allows it to cherry pick deals from a diversified sourcing pipeline. In our view, these factors allow management to react quickly to deals and reposition underperforming hotels to unlock value and produce revenue growth.

Positioned in the 3 to 4 star hotel category

PCI focuses its strategy on German hotel properties in the 3 to 4 star segments. This allows management to leverage its network across multiple levels from deal sourcing, to refurbishment activities, and finding the correct operational partners. Alongside these factors, the German hospitality market has been vibrant in recent years with occupancy rates at 3 to 5 star hotels on the rise. Moreover, Germany recorded tourism expenditures of some €278bn in 2013 with the lion’s share of this volume attributed to domestic travellers. We argue that this KPI somewhat insulates the sector from global economic cycles, given the low dependency on foreign travellers.

Growth targets supported by healthy capital structure

Thus far PCI has been able to source funds at attractive rates. The Weighted Average Cost of Debt (WACD) of its loans recently stood at 3.0%. Meanwhile, some 90% of the company’s bank debt is either fixed, swapped, or subject to cap or collar agreements. Moreover, PCI has issued convertible bonds with a volume of €150m and a five year maturity. We contend the ability to source debt at attractive rates is a key strength of PCI and will enable the envisioned growth. We also see the current WACD headed lower with the bonds (convertible at €3.00, 4% coupon) trading below the share price, as well as scope to compress the average interest rate for bank credit lines.

Strong revenue and FFO growth ahead spearheaded by exceptional 2015

Although the company has only been listed since October 2014, published results already demonstrate an ability to deliver profitable growth as highlighted by the full year results and the recent Q1/15 report. We believe PCI will continue to deliver profitable growth over the medium term. We expect revenues to increase 61% Y/Y in 2015 and EBITDA (adjusted for capital gains, revaluations, and other income) to increase 61% Y/Y to €34.9m. We also look for the company to deliver strong FFO growth (53% CAGR for 2015-18), driven by both internal and external growth in conjunction with its “Buy and Hold” strategy.

Current share price undervalues positive outlook

We use a discounted EPRA NAV model to derive a fair value for PCI. Standard relative metrics are largely unsuitable for PCI, given the financial structure of property companies. We set an initial price target of €7.50 and initiate coverage with a Buy rating. This equates to upside of some 109% versus the current share price. Our confidence in the company stems from a proven track record to source attractive deals in the German hotel space and execute its turnaround strategy. PCI took a major step towards improving visibility with investors when it recently uplisted its shares to the Alternext segment of the Paris Stock Exchange Euronext. In our view, improved capital market visibility will act as a catalyst for the share price going forward.

SWOT ANALYSIS

STRENGTHS

- **Deal flow** PCI is often regarded as a preferred buyer due to its ability to react quickly to deals. This differentiates the company from rivals saddled with more cumbersome processes.
- **Strong cash flow** PCI operations translate into steady and abundant cash flow measured by Flow From Funds (FFO).
- **Seasoned management** The team can be considered veterans in their field of expertise. Few teams boast an 11 year track record with know how forged upon over 100 deals.
- **Economies of scale** Current infrastructure including staff and IT can support significant portfolio growth.

WEAKNESSES

- **German-centric** Business model may be difficult to apply to foreign markets, given the strong focus on the German market. That said, there are bountiful opportunities to grow within Germany without hitting saturation.
- **Turnaround risks** The company deals with distressed assets that require a high level of execution to stabilise. There may be cases when turnarounds take longer than anticipated.
- **Share liquidity** Trading volumes are low due largely to the company's weak capital market visibility and low institutional following.

OPPORTUNITIES

- **Improved capital market visibility** The company is relatively unknown, due to its brief listed history and lack of current coverage.
- **Further value extraction** Turnaround times for acquired hotels and value creation for properties could accelerate as portfolio expands.
- **Ongoing repositioning of assets** PCI constantly upgrades hotel assets; not only after acquisition. Thus leases have upward scope.

THREATS

- **Deal pipeline** While the current market environment provides ample opportunities, the market could tighten and constrict deal flow.
- **Capital intensity** The company may not be able to source the debt financing needed to support its growth targets.
- **Shift in interest rates** Interest rates are presently at rock bottom levels and will eventually head north again increasing financing costs and possibly cooling a hot market environment.

VALUATION

Our valuation of PCI is based on a discounted EPRA NAV approach driven by detailed forecasts through FY 2018. Since the company is optimising real estate projects, we believe forecasts beyond a four year horizon are subject to a high degree of uncertainty and thus limit our model accordingly. Net asset value ranks among the most commonly used metrics for property companies, while the EPRA NAV methodology has become the industry standard for the sector. In simple terms, the NAV is similar to the shareholder's equity whereas the EPRA NAV adjusts for deferred tax liabilities and convertible debt.

Figure 1: EPRVA NAV model

In €'000	2014	2015	2016	2017	2018
Shareholder's Equity	179,374	327,791	541,104	813,254	1,066,918
Total equity	213,079	370,243	595,302	883,626	1,156,383
NAV per share	2.13	3.51	5.18	7.10	8.67
Net deferred taxes	46,614	65,034	88,455	119,932	155,102
Derivative financial instruments	4,995	5,245	5,507	5,782	6,071
Convertible bond	97,254	114,518	57,259	-	-
EPRA NAV	361,942	555,039	746,522	1,009,341	1,317,556
EPRA NAV per share	3.62	**5.27**	**6.49**	**8.11**	**9.88**
FFO	13,552	20,573	35,083	52,693	73,462
Revaluation results	102,758	122,801	156,138	209,850	234,465
New Equity	-	-	-	-	-
Total return	**116,310**	**143,373**	**191,221**	**262,543**	**307,927**

EPRA NAV	361,942	555,039	746,522	1,009,341	1,317,556
Return on NAV		40%	34%	35%	31%
Cost of equity		6.3%	6.3%	6.3%	6.3%
Spread		**33%**	**28%**	**29%**	**24%**

	2014	2015	2016	2017	2018
WACC		4.4%	4.4%	4.4%	4.4%
Value creation		184,896	210,159	291,385	318,950
NPV		180,730	196,674	261,102	273,660
Dividends paid		-	-	-	-
Present value of dividends paid		-	-	-	-

Fair value calculation	
PV of total value created	912,167
NAV (2014)	213,079
Adjustments	-
Equity value	1,125,246
PV of dividends	-
Fair value	1,125,246
Number of shares (000's,fully diluted)	150,000
Fair value per share €	**7.50**

Source: First Berlin Equity Research; company

Based on our portfolio forecasts, we derive a 2015-18 CAGR of 28.5% for PCI's EPRA NAV per share to €9.88 in 2018. We use a Weighted Average Cost of Capital of 4.4% based on the assumptions shown in Figure 2, which corresponds to a medium risk rating. We assume a long-term capital structure comprised of 45% debt and 55% equity. Our model calculates a fair value for the company of €1.1bn corresponding to €7.50 per share on a fully diluted basis using a 6.3% cost of equity and a 2.5% pre-tax cost of debt.

Figure 2: Weighted Average Cost of Capital

Inputs	
Risk free rate	1.0%
Country risk premium (CRP)	5.3%
Tax rate	15.0%
Cost of debt	2.5%
Terminal growth rate	2.0%
Calculations	
After tax cost of debt	2.1%
Cost of Equity	6.3%
Debt (FY 2014) (€ '000)	144,544
Equity (FY2014) (€ '000)	179,374
Total debt & equity (€ '000)	323,918
Share of debt	44.6%
Share of equity	55.4%
WACC	**4.4%**

Source: First Berlin Equity Research; company

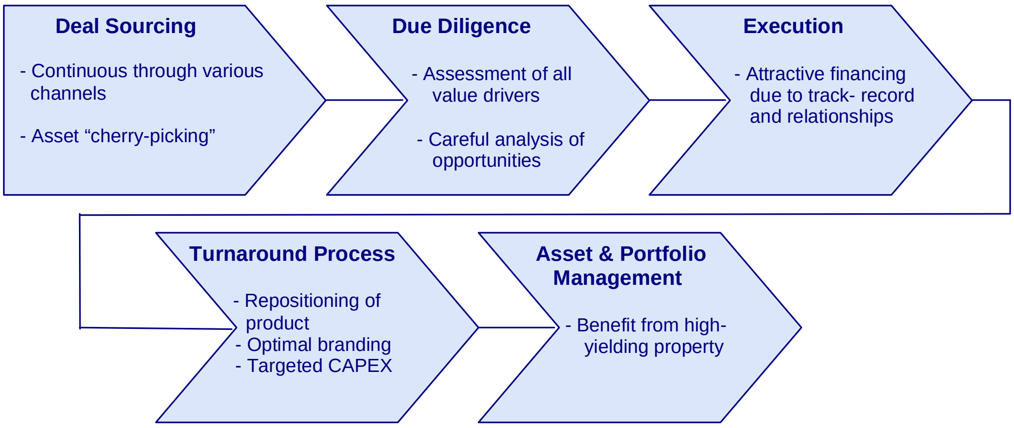
COMPANY PROFILE

Primecity Investment Plc (PCI) is a specialist in the acquisition and turnaround of distressed hotel assets in the German market. Through its extensive network, the company is able to cherry pick hotels and reposition them for turnaround. Management have an 11 year track record in sourcing the right deals to enable quick turnarounds and generate attractive cash flows through long term contracts with operating partners. This performance history includes over 100 turnaround cases.

The current portfolio is diversified over several key German regions and is generally exposed to strong levels of tourism, business travel and is able to cater to exhibition traffic. These regions and markets offer attractive fundamentals that can drive increasing growth and profitability. As of May 2015, PCI owned 50 hotels with some 8,000 hotel rooms.

We also believe the environment will remain strong enough to provide bountiful opportunities to support external growth over both the medium and long term. PCI floated its shares on the Euronext stock exchange in October 2014 and is the only publically traded hotel investment company in Europe of its kind.

Figure 3: From due diligence to cash generating asset

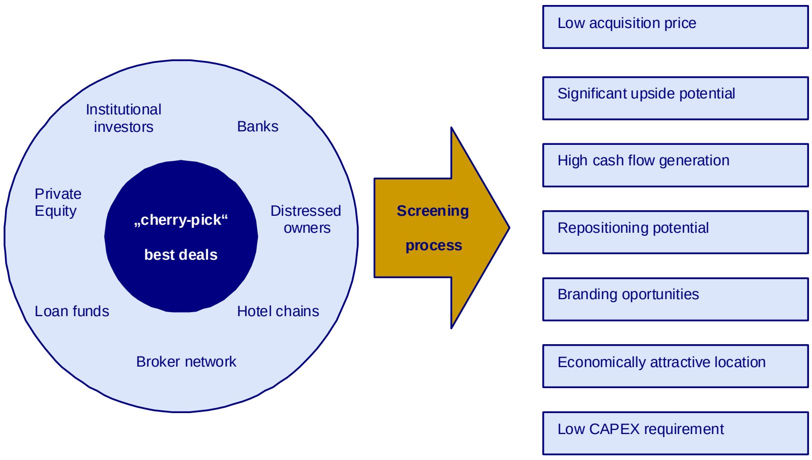


Source: First Berlin Equity Research; company

SOURCING–DEAL FLOW ON A PUSH BASIS

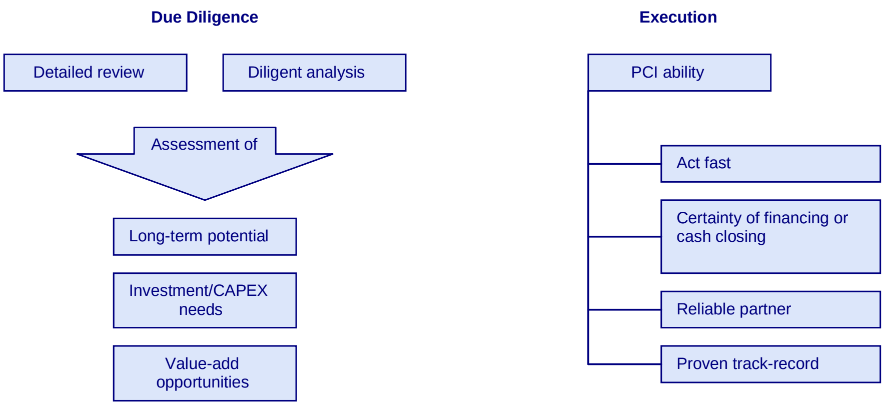
We believe a key strength of PCI is its ability to source attractive deals. Thanks to management's track record and reputation, banks, investment funds, brokers and other real estate companies looking to dispose of underperforming hotels from their holdings often push deal flow to PCI. We also argue that PCI's lean management structure enables the company to act swiftly when attractive deals present themselves, whereas rivals often have longer approval processes to act.

Figure 4: Deal sourcing overview



Source: First Berlin Equity Research; company

Figure 5: Due diligence & execution overview



Source: First Berlin Equity Research; company

Because PCI has developed the status of a preferred buyer, the company often gets a first look at deals before they ever hit the market, go into public auction, or into a bidding process. We also note that PCI is not bound by an investment mandate that can handcuff some REIT vehicles or other investment specialists. Management's selection criteria boil down as follows:

- Acquisition price below current market prices creating upside;
- Exposure to high tourism, business traffic, and exhibitions;
- Low initial CapEx needs for a quick turn around for high cash flow generation;
- Hotels that are distressed and harbour re-positioning upside;
- Opportunity to attract a major brand hotel operator post re-positioning.

As part of the due diligence phase, the PCI team maps out the weaknesses of a property and builds a detailed business plan for its turnaround. This includes a thorough analysis of the asset's current structure and assesses key issues such as location, brand, star rating, operator, and lease. The process measures the ability and flexibility to impact the underperforming asset with changes and upgrades as well as the required costs. Once the deal is concluded this business plan is ready to be executed. This allows PCI to shorten the turnaround phase and begin to generate cash flows from day one. Moreover, synergies are often derived from network integration allowing the new tenant to leverage PCI's proprietary in-house IT and marketing systems. Overall, the complete turnaround process normally takes 6 to 24 months.

REPOSITIONING AND UNLOCKING HIDDEN VALUE

Another core competence of PCI is its ability to turn around acquired assets as part of its “Buy and Hold” strategy. PCI can draw upon vast experience of successful turnarounds to quickly identify areas needing refurbishment at newly acquired hotel properties. While each hotel requires its own unique business plan, common repositioning measures often include:

1. Branding plays a key role in the transformation of a hotel into a cash generating asset. PCI has long standing relationships with many of the leading international brands such as Wyndham Hotel Group, Accor, Carlson Rezidor Hotel Group, Best Western, Holiday Inn, or Sheraton to name a few. Access to a wide variety of brands allows PCI to correctly reposition the hotel by optimising its star ranking, tailor a brand best suited for the location and the type of travellers the hotel will cater to. In our view, branding can have a major impact on the hotel’s performance given the low ratio of German hotels that are actually branded as discussed in the market section.

2. Other hotels might benefit from a conversion of existing amenities and services. Perhaps a redundant restaurant or bar might be converted into a fitness studio, spa, conference room, or activity centre for children depending on the clientele targeted for the location of the hotel asset. An improved use of existing space and structures can lead to a significant boost in rental income. Larger CapEx items may include the construction of a conference centre, new wing, or a parking garage. For such big ticket items, PCI looks for a yield of at least 20%, whereas less capital intensive improvements require a 10% yield.

3. A reconfiguring of the room floor plan. Many hotels were designed with excessively large rooms, which add little value for business travellers or tourists, who merely require a comfortable place to sleep. In such cases, PCI can boost room inventory by splitting large rooms into smaller rooms that still provide the comforts sought by guests. CapEx intensity associated with this measure is also kept in check by the fact that the infrastructure (plumbing and electrical) within the building is already in place.

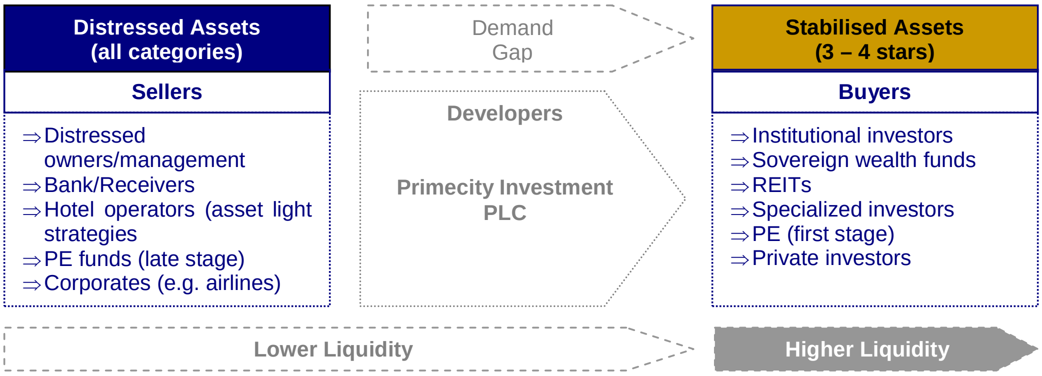
The turnaround process takes normally 6–24 months to implement for a freshly acquired hotel. Moreover, the repositioning goal is now geared towards a long term view. Prior to its listing, PCI had to recycle capital on occasion, due to financing limitations. Now the company has improved financial flexibility, which allows it to hold its refurbished assets to drive growth and stable cash flows through fixed 20 year lease agreements with operating partners.

Following the re-positioning phase, PCI leases out hotel assets to external partners selected for their track records. These operating partners enter into fixed 20 year rental contracts providing good cash flow visibility to the company. PCI also supports the operator by passing on cost saving measures that the company enjoys thanks to its economies of scale.

FINDING VALUE IN THE 3 TO 4 STAR CATAGORIES

PCI has identified 3 to 4 star hotels as the most suitable category for its strategy, due to the abundance of distressed and underperforming properties in this class with the desired traffic metrics. In some cases, hotels are converted to the 3 or 4 star class according to the local demand. We believe competition in this arena is less intense, given the lack of rivals versed in the extensive know-how required to orchestrate a turnaround.

Figure 6: Value creation through proved turnaround strategy



Source: First Berlin Equity Research; company

Once PCI closes the demand gap, the company can begin to extract the previously blocked value and capture the cash flow yields from the stabilised hotels. In certain cases, PCI may also decide to dispose of hotels in its portfolio on an opportunistic basis. PCI boasts a strong exit track record, which features a mean equity IRR of 62%.

PORTFOLIO GROWTH DRIVES Q1 2015 RESULTS

Earnings increase on solid top-line growth First quarter revenues increased 41% Y/Y to €7.4m (€5.3m), thanks primarily to additions to the portfolio and an increase in the number of leases associated with the property turnarounds. The company also noted that most of the acquisitions made in Q1/15 occurred in March and thus did not impact the three month period.

Capital gains, property revaluations and other income amounted to €31.0m in Q1/15 compared to €36.1m in the prior year period. These revaluations stem from the ongoing turnarounds of the acquired assets and reflect the ability of PCI to unlock value over time. This also means the portfolio's full potential is not reflected in the Q1/15 results and will provide ongoing upside in the future earnings.

Property expenses climbed slightly Y/Y to €0.5m (€0.3m), due to the direct growth of the portfolio. These expenses capture maintenance and refurbishment costs in addition to the standard operating costs associated with properties. We note that PCI is only responsible for the maintenance of buildings under the terms of "Dach und Fach," whereas the operator bears the other expenditures as part of the lease agreement.

Administrative & other expenses totalled €0.6m in Q1/15 vs €0.4m in the same 2014 period. The 58% increases correlates to the growth of the company. We believe these costs will remain marginal given PCI's robust infrastructure, which can support the current expansion of the portfolio.

The net financial result in Q1/15 benefited from one-off income of €8.3m traced to financial derivatives and traded securities. This gain was offset by a finance expense of €1.4m equal to a 6% Y/Y increase. The Q1/15 tax expense totalled €3.9m and comprises a current tax expense of €0.8m and a deferred tax expense of €3.1m. PCI pursues a conservative tax policy that includes a deferred tax figure to account for theoretical property disposals through asset deals at the full German real estate tax rate of 15.825%. Net income (NI) for the period totalled €40.2m corresponding to a basic EPS of €0.39 (diluted: €0.29). NI thus climbed 4.6% Y/Y.

Figure 7: Highlights from the Q1 2015 results

All figures in EUR '000	Q1/15A	Q1/14A
EBITDA	**37,263**	**40,585**
Capital gains, property revaluations and other income	-30,984	-36,036
Adjusted EBITDA	**6,279**	**4,549**
Finance expence	-1,440	-1,354
Tax	-785	-399
Net income (NI)	**40,240**	**38,353**
FFO	**4,054**	**2,796**
FFO per share	0.04	0.03

Source: First Berlin Equity Research; company

Funds From Operations (FFO I) totalled €4.1m in Q1/15 equal to a 45% Y/Y increase and also beating the 41% top-line growth rate. The result reflects profitable growth from the lease rental income and adjusted EBITDA. Here too we highlight that the Q1/15 performance does not capture the acquisitions made late in the quarter. The company reported an FFO run rate of €23m as of May 2015.

Cash flow and balance sheet Net cash from operations increased 37.5% Y/Y to €5.4m (€4.0m) in Q1/15, thanks to the growth in the hotel portfolio, the successful repositioning strategy, and the increase in lease contracts. Cash flow from investing activities amounted to €-39.2m in the first three months compared to €-4.6m in the prior year period. This is directly related to PCI's core strategy to acquire new hotel assets. The investing outflow was then offset by cash flow from financing of €51.3m, which was mainly provided by the convertible bond tap up issue executed in February. These bonds were issued at a 5% premium to their face value and were oversubscribed. Thus, the net increase to cash and cash equivalents totalled €17.6m in Q1/15.

Figure 8: Financial position highlights

All figures in EUR '000	Q1/15	2014A
Cash and liquid assets	97,417	63,404
Total assets	653,800	513,244
Investment property *	544,898	442,128
Total equity	261,643	213,079
EPRA NAV	**467,066**	**361,942**
Total debt	319,515	241,272
Loan-to-Value	**41%**	**40%**
*including advanced payments for investment properties		
Total debt without convertible bond	81,913	81,140
Loan-to- Value assuming conversion	**15%**	**18%**

Source: First Berlin Equity Research; company

Total assets increased 27% Q/Q to €654m, mainly due to the increase in investment properties. These grew some 23% Q/Q to €545m reflecting the seven hotels PCI added to its portfolio in Q1/15 as well as value growth. PCI's EPRA NAV climbed another 29% Q/Q to €467m (€362m) owing to positive earnings booked in Q1/15 and the strengthening of the financial base from the convertible tap up issue. Total liabilities rose 31% Q/Q to €392m reflecting the increase in banks loans of 24% to €179m (€145m) and the aforementioned €50m tap up bond issue. This was then offset by €7m in bond conversions. Net debt including the bond totalled €222m at the end of Q1/15—a 25% Q/Q increase.

Figure 9: Net debt overview Q1/15

All figures in EUR '000	Q1/15A	2014A
Total bank debt	179,330	144,544
Cash and liquid assets	97,417	63,404
Total net debt excluding convertible bonds	**81,913**	**81,140**
Convertible bonds	140,185	96,728
Total net debt with convertible bonds	**222,098**	**177,868**

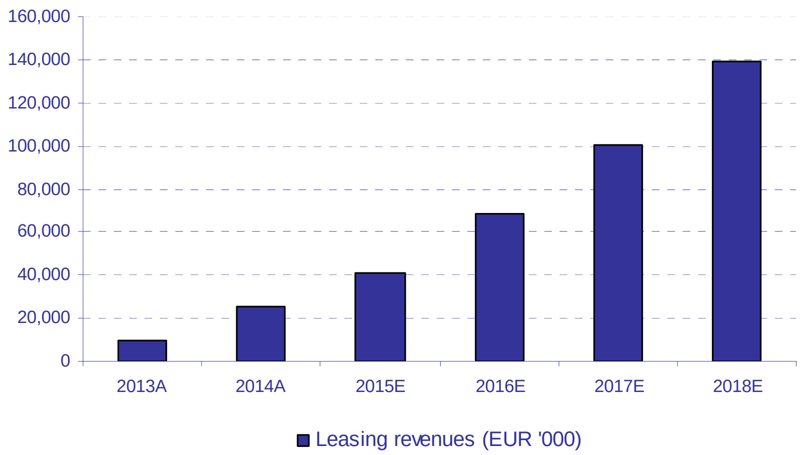
Source: First Berlin Equity Research; company

PCI presently sources debt from seven different banks. Moreover, 90% of its debt portfolio is hedged against interest rate risks and maturities extend until 2022. Maturity dates range from 2016 to 2022, and the company is negotiating extensions for the loans due in 2016 to take advantage of favourable market conditions. Moreover, PCI has issued convertible bonds with a volume of €150m, a 4% coupon, and five year maturity. PCI reported a Loan-to-Value (LTV) of 41% for the first quarter versus 40% at the end of 2014. This is well in-line with the conservative financing structure that PCI management pursues. Adjusted for the in the money bond (convertible at €3.00), the LTV for the period is 15%. The equity ratio stood at 40% at the end of Q1/15 compared to 42% at end 2014.

PRIMED FOR STRONG GROWTH & PROFITABILTY

The key driver in our model is the rate of acquisition. We have modelled 85% growth in hotel assets for 2015─a target supported by the strong growth reported in May (16 new hotels equal to 47% growth). We expect the hotel assets to grow at a 52% CAGR for the period 2015-18 with growth slowing down below 30% in 2019. As discussed in the market overview section (German Hotel Landscape), we believe there will be adequate deal flow for PCI to boost its portfolio. We expect the number of reported hotel insolvencies to range between 220─250 per annum although the actual number may be even higher as discussed in the market section later in this study.

Figure 10: Leasing revenue development



Source: First Berlin Equity Research; company

We expect revenues from leasing to increase at a CAGR of 53% for the period 2015-18 to €139m in 2018. As of May 2015, the company had already added 16 hotels to its portfolio for a total of 50 properties (2014: 34). The increase supports our 61% Y/Y revenue growth assumption to €41.1m (2014: €25.6m). This estimate is supported by the latest monthly run rate of €42m reported by PCI. We forecast adjusted EBITDA of €34.9m in 2015 and NI of €125m.

Figure 11: Portfolio sample of lease track record

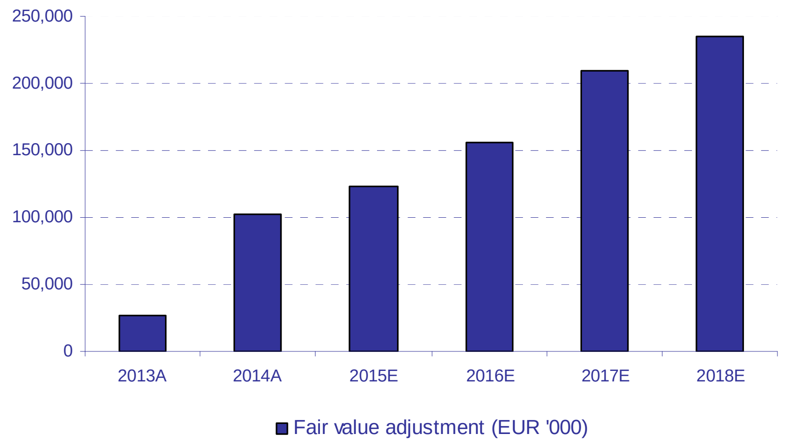
Hotel	Acquisition year	CAGR	Absolute percentage increase
Hotel 1	2009	32%	230%
Hotel 2	2008	27%	199%
Hotel 3	2008	27%	206%
Hotel 4	2008	4%	18%
Hotel 5	2006	10%	88%
Hotel 6	2006	8%	64%
Hotel 7	2006	11%	106%
Hotel 8	2006	9%	74%
Hotel 9	2006	7%	57%
Hotel 10	2006	7%	62%
Average		**14%**	**110%**

Source: First Berlin Equity Research; company

PCI derives a large portion of NI from capital gains, property revaluations and other income. Property valuations are determined by independent external market valuators, such as CBRE Group, Inc. and Jones Lang LaSalle GmbH, and are driven by two key factors. Firstly, improved revenues generated from the long term lease contracts of the repositioned hotels can trigger valuation upside. Secondly, PCI often acquires hotels at prices below the relevant market level, thus auditors asses the impact of the turnaround measures and make valuation adjustments accordingly vs the market environment. We expect this line item to grow at a CAGR of 23% for the period 2015-18 and reach €235m in 2018. Our corresponding estimate for the running fiscal year is €123m.

In addition to the direct impact of PCI's turnaround program, we also believe valuations have benefited from the overall buoyancy of commercial property markets in the past years, fuelled by rock bottom interest rates (see page 21 for data point). In our view, future valuations could be less dynamic, when interest rates begin to edge higher.

Figure 12: Capital gains, property revaluations, and other income development



Source: First Berlin Equity Research; company

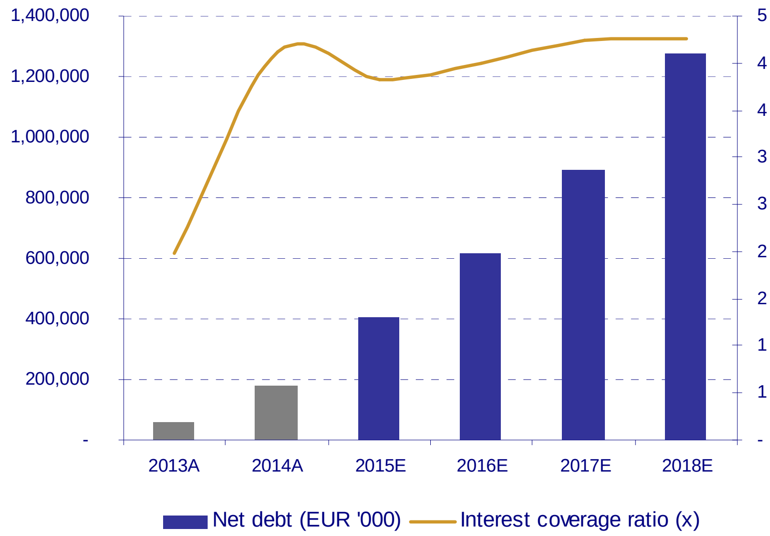
Property operating expenses contain maintenance and refurbishment costs and will climb with portfolio growth alongside the rise in purchased services. However, these expenditures are kept low, due to the significant investments already included in the initial acquisition price. Moreover, a large portion of ongoing maintenance costs are paid directly by the tenant as part of the lease agreement with the operator. We model property OpEx at 7.3% of revenues going forward.

Administration & other expenses are less coupled to portfolio growth than property OpEx and thus offer greater operating leverage as the hotel portfolio expands. In our view, the current management platform has the ability to facilitate portfolio growth with only nominal additional costs. We calculate indirect OpEx at 7.6% of revenues for 2015 with the ratio compressing to 6.7% in 2018, driven by scale effects. For operating income, we model a CAGR of 30% for the period 2015-18. We target operating income of €158m for 2015.

The growth of the company will likewise impact the financing costs as PCI draws on new credit lines to finance acquisitions. Our estimate of future tax expense includes both current corporate and property taxes and non-cash deferred taxes. For FFO, we calculate a CAGR of 53% for the period 2015-18 reaching €73.5m in 2018 equal to FFO/share of €0.49.

Capital required to finance growth PCI pursues a conservative capital structure and uses Loan-to-Value (LTV) as a KPI. The company reported an LTV of 40% at the end of 2014 (18% assuming bond conversion). On our calculations, the company will need ~€931m in fresh capital to finance our portfolio growth targets. We have assumed PCI will rely on its good standing with financial institutions and source debt, although we expect the company to also tap the capital markets opportunistically now that PCI is publically traded. For now, we have only included debt financing in our forecast. On this basis and assuming full conversion of the outstanding convertible bonds by the end of 2016, the LTV would remain below the 50% threshold throughout our forecasts. But the LTV would track much lower if equity is raised. The company reported cash and equivalents of €4.7m in 2014 with net debt of €178m. We look for net debt to climb to €403m with cash and equivalents (including trade securities) of €84.5m in 2015.

Figure 13: Interest coverage ratio (Adjusted EBITDA/interest)

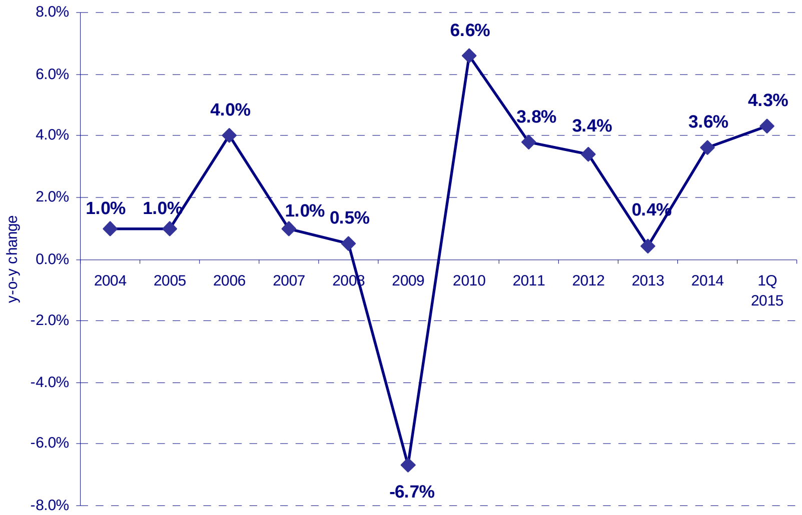


Source: First Berlin Equity Research; company

GERMAN HOTEL LANDSCAPE

PCI focuses on opportunistic acquisitions of hotel properties in major German cities. This marketplace demonstrates positive metrics with particularly strong growth over the past five years since the dip in 2009. Occupancy rates in the 3 to 5 star category have also been on the rise and approached 70% in 2014 according to the German Federal Statistical Office. Revenue per available room (RevPAR) showed a 4.1% Y/Y increase to €65.34 in 2014, whereas the overall hotel accommodation sector notched a 3.6% increase.

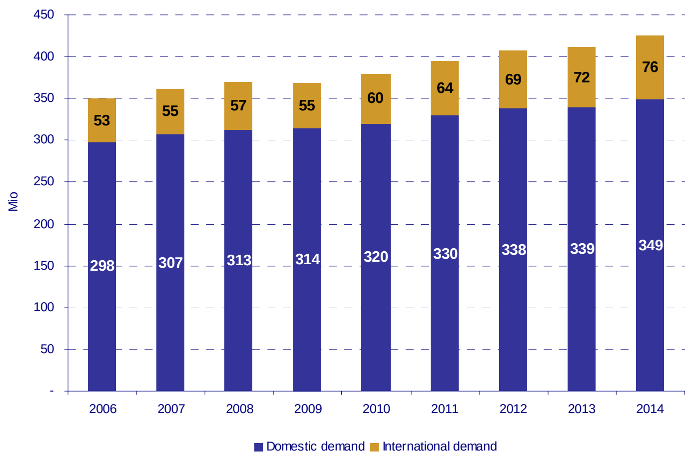
Figure 14: Revenue development in the hotel accommodation sector (2004–Q1/15)



Source: First Berlin Equity Research; German Federal Statistical Office

Recent data likewise confirms Germany's status as an attractive travel destination for both recreational and business travellers. In 2013, total tourism related expenditures reached €278bn, while some 87% of this volume was traced to domestic travellers making Germany the biggest market for domestic tourism within Europe. Numbers remained strong in Q1/15 with some 77m overnight stays booked led by domestic tourism, which accounted for nearly 82% of this figure.

Figure 15: German overnight demand development



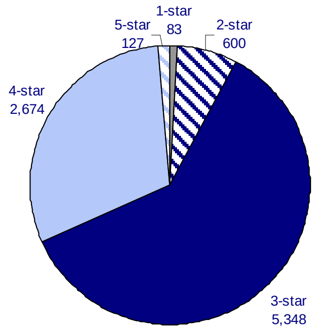
Source: First Berlin Equity Research; German International Hotel Association, Hospitality Market of Germany 2014

According to the Global Business Travel Association, Germany ranks as the top business travel market in Europe, while the International Congress and Convention Association (ICCA) reports that Germany is the premiere ranked conference location in Europe placing second worldwide only behind the US. In 2013, business travellers spent €37bn corresponding to 13% of overall travel expenditures. Of this figure, some 91% of all business overnight stays were booked in mid- to upper midscale hotels. This metric gives us confidence that PCI is well positioned with its focus on the 3 to 4 star hotel category. Travellers were mainly drawn to major German cities. Berlin, Munich, Frankfurt am Main, Hamburg, and Cologne were the top German destinations for travellers in 2013. The map below overlays the number of overnight stays by target city and region with the key locations of PCI's hotel properties.

Figure 16: Overnight numbers for major German cities and regions in 2013

Source: First Berlin Equity Research, Primecity Investment PLC, German National Tourist Board, Incoming-Tourism Germany, 2014

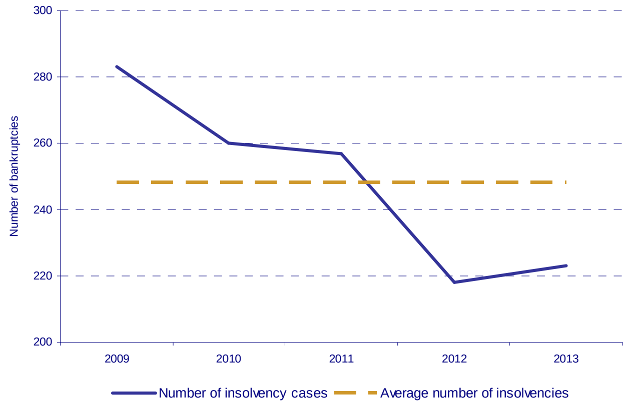
Figure 17: Breakdown of German hotels by category (Q1/15)



Source: First Berlin Equity Research, German International Hotel Association, Hospitality Market of Germany 2014

PCI's growth is determined by its ability to acquire mismanaged or underperforming hotel assets in the German market. According to the latest market data, the number of German insolvency cases has averaged around 250 per annum (Figure 18), although this is merely the reported number with actual insolvency cases tracking much higher. Plus, we believe many of the deals PCI looks at are shown to the company before they actually reach the market. Figure 17 above shows that the 3 to 4 star category constitutes some 91% of the total hotel properties. Assuming this ratio is applicable to insolvency cases, this implies that there are approximately 225 reported hotel insolvencies per year in the 3 to 4 star group that could be assessed by PCI for acquisition. However, we note that PCI also upgrades lower stared hotels with refurbishments that may be as simple as converting a restaurant into a fitness facility. Thus, the number of candidates is far greater than the above metrics.

Figure 18: Insolvencies in the German accommodation services sector



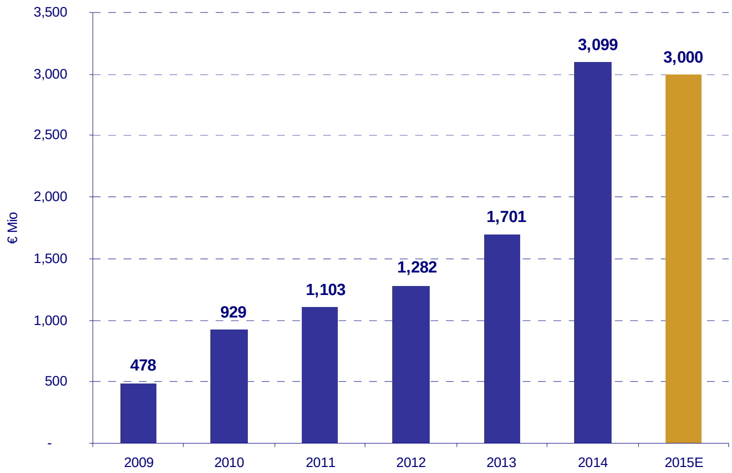
Source: First Berlin Equity Research, German International Hotel Association, Hospitality Market of Germany 2014

The German hotel market is highly fragmented made up predominantly of smaller hotel asset owners. Moreover, the relatively low penetration rate of branded chain hotels also differentiates Germany from other leading hotel markets. Presently, only 11% of German hotels, or 39% of available rooms, are branded. In our view, this provides upward scope for brands to increase their coverage on PCI's home turf. The company's sizeable German portfolio makes it an attractive partner for brands and distinguishes PCI from smaller asset owners that lack access to branding partners.

German hotel investment market

Not only are tourism and business travel metrics on the rise, investments in the German hotel market have also been steadily climbing (45% CAGR for 2009-2014) and produced a bumper year in 2014 with a €3bn investment volume equal to an 82% Y/Y increase. A recent report projects a similar volume in 2015 with investments expected to be north of €3bn.

Figure 19: Transaction volume trend for German hotel properties



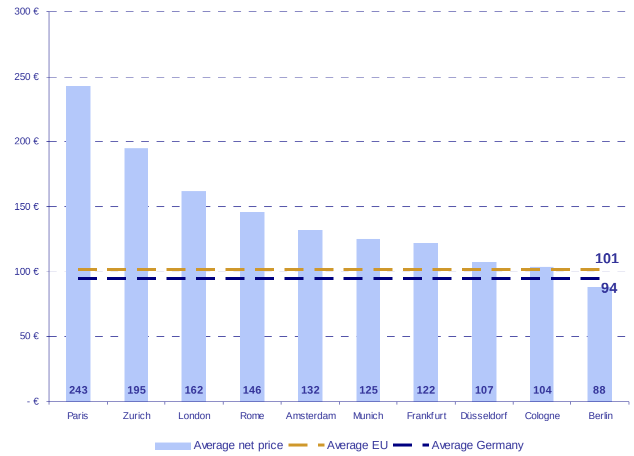
Source: Colliers International, Germany Hotel Market Report 2014/2015

The lion's share of these funds flowed into the 3 and 4 star hotel segments, which captured €1.6bn, or 53%, of aggregate transaction volume. The second most attractive category was the luxury hotel segment with nearly €1bn (31%) in transactions. Matching the top destinations of travellers, investors preferred to fund hotel projects in Berlin, Frankfurt am Main, Düsseldorf, Cologne, Hamburg, Munich, and Stuttgart accounting for 71% of the overall volume. The figure below breaks down the main groups of investors in real estate assets.

According to the German National Tourist Board (GNTB), the European hospitality industry will show annual growth of 2.3% until 2030. Over the same period, arrivals across Europe are expected to grow from 563m in 2013 to 744m in 2030. Taking into account the increasing attractiveness of Germany as a recreational and business destination spot and the rising number of overnight bookings, we believe German tourism will continue its positive trends in the future. This should in turn spark further investment into the hotel infrastructure.

German hotels offer guests good value with prices at relatively low levels compared with other major European cities. Therefore, we see potential for future price increases and higher revenue streams and profits for hotel operators and owners. The figure below charts mean hotel prices (excluding breakfast and tax) in the most attractive European and German destinations.

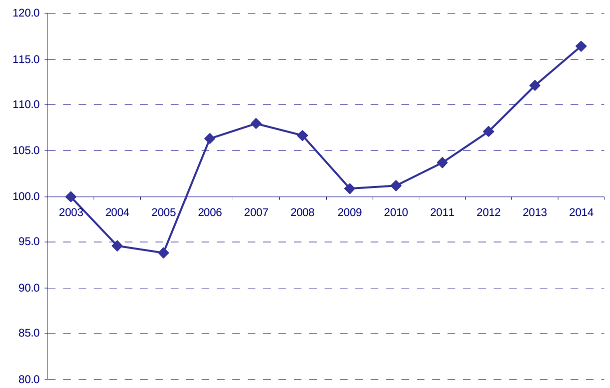
Figure 20: Comparison of hotel rates in major EU destinations



Source: Colliers International, Germany Hotel Market Report 2014/2015

Given the absence of a price index exclusive to hotels, we refer to a commercial property index for insight into trend developments. Commercial property is a broad definition and includes not only hotels but also all properties for production and trading activities. Figure 22 shows that prices for commercial property in Germany have been increasing strongly since 2009 with 4.2% and 4.7% Y/Y growth respectively in 2013 and 2014. Congruent with the aphorism “a rising tide lifts all boats,” we believe hotel valuations have benefited from a buoyant commercial property market. This has certainly impacted the revaluations of hotels in the PCI portfolio.

Figure 21: Price index for German commercial property



Source: First Berlin Equity Research, Associations of German Pfandbrief Banks

MANAGEMENT TEAM AND ADVISORY BOARD

Philip von Bodman, CEO

Mr von Bodman was appointed CEO of PCI in 2011. Prior to that, he held the position of Director of Operations at the GCH Hotel Group. He has broad international experience in hotel asset management and acted among other positions as a hotel asset manager and served as a consultant for hotel valuations and hotel feasibility studies. Mr von Bodman holds an MBA in International Hospitality Management from Cornell University (USA) and ESSEC Business School (France), and a diploma in Hotel Operations Management from Hotel School (Germany).

Christian Hupfer, CFO

Christian Hupfer was appointed CFO of PCI in 2011. Prior to joining the company, he served for three years as Financial Controller and Head of Group Accounting at the GCH Hotel Group. Mr Hupfer also previously worked in the Audit and Tax department for RöverBrönner KG Steuerberatungs und Wirtschaftsprüfungsgesellschaft. He has extensive experience in tax structuring, financial statement and cash flow analysis as well as in bank negotiations. Mr Hupfer holds a Dipl. Betriebswirt (BA) degree in Studies of Economics with a focus on tax and financial auditing.

Yakir Gabay, Advisory Board Chairman

Prior to joining the PCI Advisory Board, Mr Gabay served as Chairman and Managing Partner of an investment company with over $30bn in assets under management. He also previously served as the CEO of Bank Leumi. He holds a BA and MBA in accounting and economics and is also a CPA.

INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Revenues	**9,873**	**25,563**	**41,049**	**68,459**	**100,123**	**138,988**
Capital gains, property revaluations & other	26,768	102,758	122,801	156,138	209,850	234,465
Property OpEx	-1,262	-1,854	-2,997	-4,997	-7,309	-10,146
Administration & other OpEx	-1,119	-1,973	-3,120	-4,995	-7,013	-9,346
Operating income (EBIT)	**34,260**	**124,494**	**157,733**	**214,605**	**295,651**	**353,961**
Net financial result	-3,770	-5,287	-9,120	-14,614	-20,238	-28,110
Other financial expenses	-76	-5,789	0	0	0	0
Pre-tax income (EBT)	**30,414**	**113,418**	**148,613**	**199,991**	**275,413**	**325,851**
Income taxes	-422	-9,424	-23,660	-32,191	-44,348	-53,094
Minority interests	55	7,162	8,747	11,746	16,175	19,093
Net income / loss	**29,992**	**103,994**	**124,953**	**167,800**	**231,066**	**272,757**
Basic EPS (in €)	**0.30**	**0.97**	**1.10**	**1.36**	**1.73**	**1.90**
Diluted EPS (in €)	**0.30**	**0.93**	**1.01**	**1.28**	**1.68**	**1.69**
Adjusted EBITDA	**7,492**	**21,736**	**34,932**	**58,467**	**85,801**	**119,496**
Ratios						
Adjusted EBITDA margin on revenues	75.9%	85.0%	85.1%	85.4%	85.7%	86.0%
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Expenses as % of revenues						
Property OpEx	12.8%	7.3%	7.3%	7.3%	7.3%	7.3%
Administration & other OpEx	11.3%	7.7%	7.6%	7.3%	7.0%	6.7%
Y-Y Growth						
Revenues	n.a.	158.9%	60.6%	66.8%	46.3%	38.8%
Operating income	n.a.	263.4%	26.7%	36.1%	37.8%	19.7%
Adjusted EBITDA	n.a.	190.1%	60.7%	67.4%	46.8%	39.3%
Net income/ loss	n.a.	246.7%	20.2%	34.3%	37.7%	18.0%

BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Assets						
Current assets, total	**3,452**	**65,070**	**87,682**	**68,479**	**51,949**	**44,144**
Cash and cash equivalents	1,119	4,692	26,094	5,335	10,953	12,532
Short-term investments	0	56,994	56,994	56,994	33,057	21,487
Receivables	694	1,090	2,249	3,751	5,486	7,616
Other current assets	1,639	2,294	2,346	2,399	2,453	2,510
Non-current assets, total	**183,210**	**448,174**	**848,865**	**1,311,845**	**1,908,799**	**2,600,756**
Property, plant & equipment	0	4,479	4,569	4,660	4,753	4,848
Investment properties	152,870	421,995	810,230	1,255,224	1,829,032	2,494,180
Other LT assets	30,340	21,700	34,066	51,961	75,014	101,728
Total assets	**186,662**	**513,244**	**936,547**	**1,380,324**	**1,960,749**	**2,644,900**
Shareholders' equity & debt						
Current liabilities, total	**4,105**	**12,796**	**23,466**	**37,426**	**54,739**	**75,332**
Short-term debt	2,953	6,855	17,120	28,559	42,972	60,027
Accounts payable	892	3,313	3,612	6,024	8,811	12,231
Provisions & current liabilities	260	2,628	2,733	2,842	2,956	3,074
Long-term liabilities, total	**98,057**	**287,369**	**542,839**	**747,596**	**1,022,384**	**1,413,185**
Long-term debt	57,309	234,417	471,190	652,237	895,244	1,250,558
Deferred tax liabilities	15,448	46,614	65,034	88,455	119,932	155,102
Other LT liabilities	25,300	6,338	6,615	6,904	7,208	7,525
Minority interests	6,172	33,705	42,452	54,198	70,372	89,465
Shareholders' equity	**78,328**	**179,374**	**327,791**	**541,104**	**813,254**	**1,066,918**
Share Capital	9	1,002	1,002	1,002	1,002	1,002
Capital Reserve	0	1,747	1,747	1,747	1,747	1,747
Loss carryforward / retained earnings	78,319	176,625	292,832	448,886	663,777	917,441
Total consolidated equity and debt	**186,662**	**513,244**	**936,547**	**1,380,324**	**1,960,749**	**2,644,900**

	2013A	2014A	2015E	2016E	2017E	2018E
Ratios						
Current ratio (x)	0.84	5.09	3.74	1.83	0.95	0.59
Equity ratio (x)	45.3%	41.5%	39.5%	43.1%	45.1%	43.7%
Financial leverage	73.5%	99.2%	123.1%	114.0%	109.7%	119.5%
Book value per share	0.78	1.72	2.85	4.44	6.38	7.11
Net debt	57,555	177,868	403,453	616,645	892,329	1,274,632
Return on equity (ROE)	38.3%	58.0%	38.1%	31.0%	28.4%	25.6%
Loan-to-value (LTV)	31.7%	40.2%	47.9%	47.2%	46.9%	49.1%
LTV without convertible bond	31.7%	18.4%	34.3%	42.9%	46.9%	49.1%

CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Net income	**29,992**	**103,994**	**124,953**	**167,800**	**231,066**	**272,757**
Capital gains, property revaluations & other	-26,768	-102,758	-122,801	-156,138	-209,850	-234,465
Net finance expenses	3,846	11,076	9,120	14,614	20,238	28,110
Tax result	422	9,424	5,240	8,770	12,870	17,924
Operating cash flow	**7,492**	**21,736**	**16,512**	**35,046**	**54,324**	**84,326**
Changes in working capital	-1,626	-389	-13,188	-16,943	-21,956	-25,372
Provisions for other liabilities	-15	275	18,489	23,490	31,547	35,239
Tax paid	-697	-1,857	-5,240	-8,770	-12,870	-17,924
Net operating cash flow	**5,154**	**19,765**	**16,574**	**32,823**	**51,045**	**76,269**
CapEx/ intangibles	0	0	-90	-91	-93	-95
Proceeds from disposal of (investment in) investment property, net	-3,788	35,491	-265,435	-288,856	-363,958	-430,684
Acquisition of subsidiaries	-24,070	-41,608	0	0	0	0
Proceeds from investments in financial assets	-1,572	-60,966	223	235	24,184	11,829
Cash flow from investing	**-29,430**	**-67,083**	**-265,301**	**-288,712**	**-339,867**	**-418,950**
Free cash flow	**1,366**	**55,256**	**-248,951**	**-256,124**	**-313,006**	**-354,509**
Debt financing, net	25,308	55,793	279,249	249,745	314,678	372,369
Equity financing, net	0	0	0	0	0	0
Net paid financing expenses	69	-4,902	-9,120	-14,614	-20,238	-28,110
Cash flow from financing	**25,377**	**50,891**	**270,129**	**235,131**	**294,440**	**344,259**
Net cash flows	**1,101**	**3,573**	**21,402**	**-20,759**	**5,618**	**1,579**
Cash, start of the year	18	1,119	4,692	26,094	5,335	10,953
Cash, end of the year	**1,119**	**4,692**	**26,094**	**5,335**	**10,953**	**12,532**
Adjusted EBITDA/share (in €)	**0.07**	**0.16**	**0.23**	**0.39**	**0.57**	**0.80**
FFO	**3,026**	**13,552**	**20,573**	**35,083**	**52,693**	**73,462**
FFO/share	**0.03**	**0.13**	**0.18**	**0.29**	**0.41**	**0.49**
Y-Y Growth						
Operating cash flow	n.m.	283.5%	-16.1%	98.0%	55.5%	49.4%
Free cash flow	n.m.	3945.1%	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	117.6%	42.9%	67.4%	46.8%	39.3%

SHAREHOLDERS & STOCK INFORMATION

Stock Information	
ISIN	CY0104972217
WKN	A12DDK
Bloomberg ticker	ALPCI FP
No. of issued shares	103,266,661
Country	Cyprus
Sector	Real Estate
Subsector	Hospitality

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
Aroundtown Property Holdings Plc	56.0%
Free Float	44.0%

Source: First Berlin Equity Research; company

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 June 2015	€3.59	Buy	€7.50

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance
BUY: Expected return greater than 25%
ADD: Expected return between 0% and 25%
REDUCE: Expected negative return between 0% and -15%
SELL: Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

Up until 16 May 2008, First Berlin's investment rating system was three tiered and was a function of our expectation of return (forecast price appreciation and dividend yield) over the specified year. Our investment ratings were as follows: BUY: expected return greater than 15%; HOLD: expected return between 0% and 15%; and SELL: expected negative return.

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