

Primecity Investment Plc.

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

2015 Results

RATING	BUY
PRICE TARGET	€6.20
Return Potential	69.9%
Risk Rating	Medium

2015 RESULTS HIGHLIGHT STRONG OPERATIONS

Full year results featured strong growth in rental income and profitability. The top-line benefited from organic growth and a 70% Y/Y increase in hotel assets. Primecity Investment Plc (PCI) was also able to trim its Loan-to-Value to 36% (2014: 40%) and grow Funds from Operations (FFO I) 57% Y/Y to €21m. PCI reported a monthly annualised run rate for the portfolio of €48m in March, which extrapolated throughout the remainder of 2016 would equate to 21% growth. After exceptionally strong growth the past two years, we expect a more stable growth trend going forward. Our rolled over EPRA NAV model now produces a fair value of €6.20 (previous: €7.50) per share. We maintain our Buy rating.

Rental income well ahead of the prior year figure Full year rental income totalled €39.7m. This beat the prior year figure of €25.6m by 55% but was below our estimate of €41.1m. The shortfall was due mainly to the large number of units acquired at the end of the period, which were unable to fully contribute to the top line. The strong Y/Y performance stems from PCI's ability to increase leases of existing and new hotels alongside the new acquisitions. The company grew its portfolio from 34 hotels in 2014 to 55 by the end of 2015. On a Q4 basis, revenues rose 52% Y/Y to €11.8m (Q4/14: €7.8m). The monthly annualised revenue run rate increased to €48m as of March 2016 compared to €46m at the end of October 2015.

Top-line drives profitability and strong FFO Capital gains, property revaluations and other income increased to €212m in 2015 (2014: €103m), fuelled by value created through PCI's turnaround and repositioning activities. For the year, adjusted EBITDA, stripped of one-off capital gains, rose 56% Y/Y to €34m (2014: €22m) underscoring the strong operational performance. Net income (NI) doubled Y/Y to €208m (2014: €104m). On a quarterly basis, adjusted EBITDA and NI grew respectively by 39% and 53% Y/Y. Thanks to the strong operational performance, Funds from Operations likewise surged. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	9.87	25.56	39.67	49.86	52.77	58.84
Y-o-y growth	n.a.	158.9%	55.2%	25.7%	5.8%	11.5%
Adj. EBITDA (€m)	7.49	21.74	33.96	42.78	45.38	50.76
Net income (€m)	30.0	104.0	207.5	141.6	128.6	138.1
EPS (diluted) (€)	0.30	0.93	1.06	0.88	0.80	0.86
EPRA NAV (€m)	103.04	361.94	686.63	846.42	992.87	1149.72
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FFO I (€m)	3.03	13.55	21.30	26.98	28.71	32.90
Net gearing	73.5%	99.2%	88.4%	65.1%	47.5%	44.1%
Liquid assets (€m)	2.71	63.40	27.53	36.11	44.85	48.90

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 underperforming 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.

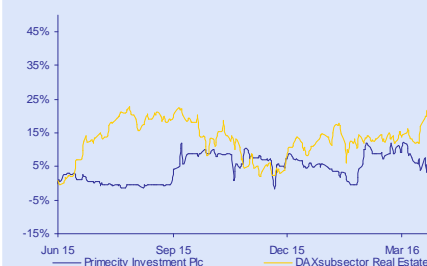
MARKET DATA

As of 31 Mar 2016

Closing Price	€ 3.65
Shares outstanding	113.27m
Market Capitalisation	€ 413.44m
52-week Range	€ 3.16 / 3.76
Avg. Volume (12 Months)	39,368

Multiples	2015	2016E	2017E
P/E	3.4	4.2	4.6
P/EPRA NAV	0.6	0.6	0.6
FFO I Yield	5.5%	6.4%	6.3%
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2015

Liquid Assets	€ 27.53m
Current Assets	€ 31.27m
EPRA NAV	€ 686.63m
Total Assets	€ 953.64m
Current Liabilities	€ 34.28m
Total Equity	€ 476.45m

SHAREHOLDERS

Aroundtown Property Holdings Plc	81.0%
Free Float	19.0%

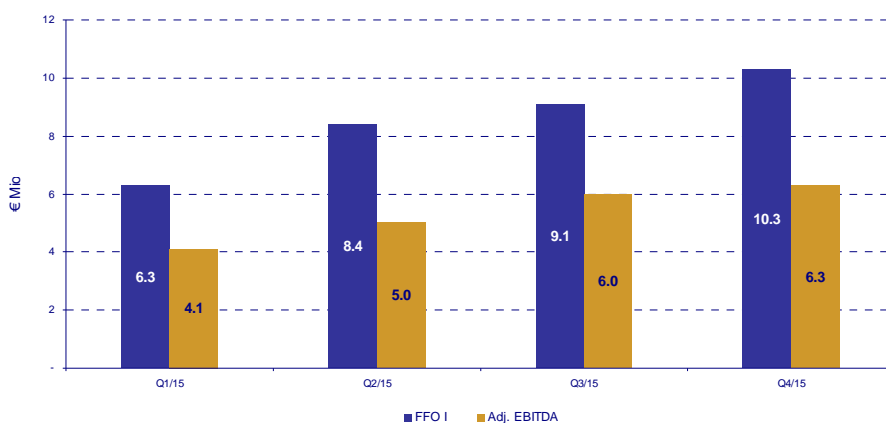
**Figure 1: 2015 KPIs vs estimates and previous year**

All figures in EUR '000	Q4 2015	Q4 2015E	Delta	Q4 2014	delta	2015	2014	Delta
Rental income	11,817	13,196	-10.5%	7,801	51.5%	39,670	25,563	55.2%
Adjusted EBITDA*	10,259	11,230	-8.6%	7,367	39.3%	33,961	21,736	56.2%
Adjusted margin	87%	84%	-	94%	-	86%	85%	-
FFO I	6,289	4,920	27.8%	5,376	17.0%	21,298	13,552	57.2%

*adjusted for capital gains, property revaluations, and other income

Source: First Berlin Equity Research; Primecity Investment

FFO I increased rose 57% Y/Y during 2015 to €21.2m compared to €13.5m in the prior year. The result corresponds to FFO I of €0.20 per share compared to €0.14 per share in 2014. The fourth quarter continued positive trends in FFO I and adjusted EBITDA as highlighted in the figure below.

Figure 2: FFO I and adjusted EBITDA developments

Source: First Berlin Equity Research; Primecity Investment

Operational structure drives efficiency gains Property operating expenses increased 74% Y/Y to €3.3m (2014: €1.9m). The increase is traced directly to portfolio growth. Administrative and other expenses increased by only 35% Y/Y to €2.7m (2014: €2.0m). This was well below top-line growth and demonstrates strong operational gearing. Net financial expenses for year declined from €11.1m to €3.7m, owing chiefly to a positive item of €5.0m booked under other financial results.

Operational performance translates into strong cash flows Due mainly to the growth of the portfolio and asset turnaround performance, net cash flow from operating activities rose 59% Y/Y to €31.5m (2014: €19.8m). The €77.8m in net cash consumed by investment activities is attributable mainly to external growth—the property portfolio expanded by 21 hotels to 55 in 2015. Cash flow from financing amounted to €93m for the period. Overall, this led to a net increase in cash of €16m leaving PCI with cash and cash equivalents of €21m at the end of December.

Balance sheet remains solid alongside portfolio growth Total assets grew to €953m (2014: €513m), driven mainly by the addition of investment properties, which more than doubled Y/Y (see figure 3). Net debt totalled €326m at year end, or €216m without the convertible bond. EPRA NAV climbed to €686m at the end of the reporting period vs €362m at the end of 2014. Loan-to-Value (LTV) of 36% at the end of Q4/15, or 24% assuming conversion of the bond.

**Figure 3: 2015 financial highlights**

All figures in EUR '000	2015	2014	Delta
Cash & liquid assets	27,533	63,404	-56.6%
Investment property ¹	900,496	442,128	103.7%
Total equity	476,446	213,079	123.6%
EPRA NAV	686,634	361,942	89.7%
Interest bearing debt	243,231	144,544	68.3%
Convertible bond ²	110,222	96,728	14.0%
Loan-to-Value (LTV)	36%	40%	-
LTV assuming conversion	24%	18%	-
Equity ratio	50%	42%	-
Equity ratio assuming conversion ²	62%	60%	-

¹ including advanced payments

² the convertible bond is in the money and 32% has been converted

Source: First Berlin Equity Research; Primecity Investment

Growth to continue in 2016 albeit at a slower rate than previously projected We have lowered growth assumptions to reflect the growth trends seen in Q4/15. After an exceptionally strong start to 2015, acquisitions slowed in towards the end of 2015 with only one hotel added to the portfolio since last October. Our full year rental income estimate is just above the current monthly annualised run rate of €48m for rental income. We expect this to translate into FFO I of €27m, which is also just above the monthly annualised FFO I run rate of €26m reported for March 2016. Our new figures correspond to rental income and FFO I growth of 26% Y/Y respectively. We also expect less external growth for 2017 on similar assumptions. Nevertheless, rental income should climb 6% next year to €53m.

Figure 4: Changes to our forecasts

in €'000	2016E			2017E		
	Old	New	% change	Old	New	% change
Rental income	71,049	49,860	-29.8%	106,323	52,766	-50.4%
Revaluations	162,046	135,048	-16.7%	204,802	117,719	-42.5%
Adjusted EBITDA*	60,679	42,782	-29.5%	91,114	45,376	-50.2%
margin	85.4%	85.8%	-	85.7%	86.0%	-
Operating profit	222,725	177,631	-20.2%	295,916	162,937	-44.9%
Net income	174,584	141,568	-18.9%	231,428	128,609	-44.4%
EPS € (diluted)	1.12	0.88	-21.6%	1.46	0.80	-45.4%

*adjusted for capital gains, property revaluations, and other income

Source: First Berlin Equity Research



EPRA NAV VALUATION

We have rolled our model forward and adjusted our WACC to 4.3% (previous: 4.4%), due to the improved stability of the portfolio and the expected slow down in external growth. We now see fair value for the share at €6.20 (previous: €7.50) corresponding to a Buy rating.

In €'000	2016E	2017E	2018E	2019E
Shareholder's Equity	555,557	730,275	858,678	998,718
Total equity	673,125	856,845	994,913	1,145,494
NAV per share (€)	5.86	6.90	7.46	8.59
Deferred taxes	114,451	132,109	150,697	170,585
Derivative financial instruments	3,730	3,916	4,112	4,317
Convertible bond	55,111	-	-	-
EPRA NAV	846,416	992,870	1,149,722	1,320,396
EPRA NAV per share (€)	6.43	6.62	7.66	8.80
FFO	26,976	28,707	32,903	38,066
Revaluation results	135,048	117,719	123,921	132,584
New Equity	-	-	-	1
Total return	162,024	146,426	156,824	170,651

EPRA NAV	846,416	992,870	1,149,722	1,320,396
Return on NAV	24%	17%	16%	15%
Cost of equity	6.0%	6.0%	6.0%	6.0%
Spread	18%	11%	10%	9%

	2016E	2017E	2018E	2019E
WACC	4.3%	4.3%	4.3%	4.3%
Value creation	148,647	111,842	112,213	116,297
NPV	144,049	103,924	99,979	99,356
Dividends paid	-	-	-	-
Present value of dividends paid	-	-	-	-

Fair value calculation	
PV of total value created	447,308
NAV (2014)	476,446
Adjustments	-
Equity value	923,754
PV of dividends	-
Fair value	923,754
Number of shares (000's, fully diluted)	150,000
Fair value per share €	6.20



INCOME STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
Lease revenues	9,873	25,563	39,670	49,860	52,766	58,842
Capital gains, property revaluations & other	26,768	102,758	211,857	135,048	117,719	123,921
Property OpEx	-1,262	-1,854	-3,316	-3,640	-3,852	-4,295
Administration & other OpEx	-1,119	-1,973	-2,683	-3,638	-3,696	-3,957
Operating income (EBIT)	34,260	124,494	245,528	177,631	162,937	174,511
Net financial result	-3,770	-5,287	-8,760	-9,389	-9,863	-10,241
Other financial expenses	-76	-5,789	5,029	0	0	0
Pre-tax income (EBT)	30,414	113,418	241,797	168,242	153,074	164,270
Income taxes	-422	-9,424	-34,302	-26,675	-24,464	-26,202
Minority interests	55	7,162	57,375	9,910	9,003	9,665
Net income / loss	29,992	103,994	207,495	141,568	128,609	138,068
Basic EPS (in €)	0.30	0.97	1.42	1.15	0.96	0.96
Diluted EPS (in €)	0.30	0.93	1.06	0.88	0.80	0.86
Adjusted EBITDA	7,492	21,736	33,961	42,782	45,376	50,758
Ratios						
Adjusted EBITDA margin on revenues	75.9%	85.0%	85.6%	85.8%	86.0%	86.3%
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Expenses as % of revenues						
Property OpEx	12.8%	7.3%	8.4%	7.3%	7.3%	7.3%
Administration & other OpEx	11.3%	7.7%	6.8%	7.3%	7.0%	6.7%
Y-Y Growth						
Revenues	n.a.	158.9%	55.2%	25.7%	5.8%	11.5%
Operating income	n.a.	263.4%	97.2%	-27.7%	-8.3%	7.1%
Adjusted EBITDA	n.a.	190.1%	56.2%	26.0%	6.1%	11.9%
Net income/ loss	n.a.	246.7%	99.5%	-31.8%	-9.2%	7.4%
Funds from Operations (FFO I)						
Operating profit	34,260	124,494	245,528	177,631	162,937	174,511
Depreciation and amortisation	0	0	290	199	158	168
EBITDA	34,260	124,494	245,818	177,830	163,095	174,679
Capital gains, property revaluations and other	-26,768	-102,758	-211,857	-135,048	-117,719	-123,921
Adjusted EBITDA	7,492	21,736	33,961	42,782	45,376	50,758
Financial expense	-3,770	-5,287	-8,760	-9,389	-9,863	-10,241
Tax	-696	-2,897	-3,903	-6,417	-6,806	-7,614
FFO I	3,026	13,552	21,298	26,976	28,707	32,903



BALANCE SHEET

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
Assets						
Current assets, total	3,452	65,070	31,267	40,378	49,320	53,782
Cash and cash equivalents	1,119	4,692	20,900	29,351	38,981	43,384
Short-term investments	0	56,994	2,420	2,420	1,404	912
Receivables	694	1,090	2,882	3,415	3,614	4,030
Other current assets	1,639	2,294	5,065	5,191	5,322	5,456
Non-current assets, total	183,210	448,174	922,376	1,175,607	1,362,942	1,553,093
Property, plant & equipment	0	4,479	4,514	4,604	4,696	4,790
Investment properties	152,870	421,995	900,322	1,152,412	1,336,798	1,523,950
Other LT assets	30,340	21,700	17,540	18,591	21,448	24,353
Total assets	186,662	513,244	953,643	1,215,985	1,412,262	1,606,875
Shareholders' equity & debt						
Current liabilities, total	4,105	12,796	34,280	29,013	31,895	34,599
Short-term debt	2,953	6,855	21,736	15,688	17,928	19,597
Accounts payable	892	3,313	5,485	5,983	6,332	7,061
Provisions & current liabilities	260	2,628	7,059	7,341	7,635	7,940
Long-term liabilities, total	98,057	287,369	442,917	513,848	523,522	577,363
Long-term debt	57,309	234,417	331,717	381,944	373,500	408,276
Deferred tax liabilities	15,448	46,614	94,194	114,451	132,109	150,697
Other LT liabilities	25,300	6,338	17,006	17,453	17,914	18,389
Minority interests	6,172	33,705	107,658	117,568	126,570	136,235
Shareholders' equity	78,328	179,374	368,788	555,557	730,275	858,678
Share capital	9	1,002	1,133	1,133	1,133	1,133
Capital reserve	0	1,747	1,747	1,747	1,747	1,747
Loss carryforward / retained earnings	78,319	176,625	326,984	458,642	578,249	706,652
Total consolidated equity and debt	186,662	513,244	953,643	1,215,985	1,412,262	1,606,875
Ratios						
Current ratio (x)	0.84	5.09	0.91	1.39	1.55	1.55
Equity ratio	45.3%	41.5%	50.0%	55.4%	60.7%	61.9%
Financial leverage	73.5%	99.2%	88.4%	65.1%	47.5%	44.1%
EPRA NAV (€ '000)	103,004	361,942	686,634	846,416	992,870	1,149,722
Net debt ('000)	57,555	177,868	325,920	361,521	346,574	378,974
Return on equity (ROE)	38.3%	58.0%	56.3%	25.5%	17.6%	16.1%
Loan-to-value (LTV)	31.7%	40.2%	35.6%	30.9%	25.5%	24.5%
LTV without convertible bond	31.7%	18.3%	23.5%	26.2%	25.5%	24.5%



CASH FLOW STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
Net income	29,992	103,994	207,495	141,568	128,609	138,068
Depeciation & amortisation	0	0	290	199	158	168
Capital gains, property revaluations & other	-26,768	-102,758	-211,857	-135,048	-117,719	-123,921
Net finance expenses	3,846	11,076	3,731	9,389	9,863	10,241
Tax result	422	9,424	34,302	26,675	24,464	26,202
Operating cash flow	7,492	21,736	33,961	42,782	45,376	50,758
Changes in working capital	-1,626	-389	-100	-1,126	-2,746	-2,628
Provisions for other liabilities	-15	275	134	466	477	488
Tax paid	-697	-1,857	-2,537	-6,417	-6,806	-7,614
Net operating cash flow	5,154	19,765	31,458	35,704	36,300	41,003
CapEx/ intangibles	0	0	0	-290	-250	-262
Proceeds from disposal of (investment in) investment property, net	-3,788	35,491	-65,799	-117,042	-66,667	-63,231
Acquisition of subsidiaries	-24,070	-41,608	-76,052	0	0	0
Proceeds from investments in financial assets	-1,572	-60,966	33,674	178	1,203	687
Cash flow from investing	-29,430	-67,083	-108,177	-117,154	-65,715	-62,805
Free cash flow	1,366	55,256	-34,341	-81,627	-30,617	-22,489
Debt financing, net	25,308	55,793	103,442	99,290	48,907	36,446
Equity financing, net	0	0	0	0	0	0
Net paid financing expenses	69	-4,902	-10,515	-9,389	-9,863	-10,241
Cash flow from financing	25,377	50,891	92,927	89,901	39,044	26,205
Net cash flows	1,101	3,573	16,208	8,451	9,630	4,403
Cash, start of the year	18	1,119	4,692	20,900	29,351	38,981
Cash, end of the year	1,119	4,692	20,900	29,351	38,981	43,384
Adjusted EBITDA/share (in €)	0.07	0.16	0.23	0.29	0.30	0.34
FFO	3,026	13,552	21,298	26,976	28,707	32,903
FFO/share	0.03	0.13	0.20	0.23	0.23	0.25
Y-Y Growth						
Operating cash flow	n.m.	283.5%	59.2%	13.5%	1.7%	13.0%
Funds from operations (FFO I)	n.m.	347.9%	57.2%	26.7%	6.4%	14.6%
Adjusted EBITDA/share	n.m.	117.6%	38.9%	26.0%	6.1%	11.9%

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
2	12 August 2015	€3.55	Buy	€7.50
3	3 December 2015	€3.44	Buy	€7.50
4	Today	€3.65	Buy	€6.20

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First Berlin's investment rating system is five tiered and includes an investment recommendation and a risk rating. Our recommendations, which are a function of our expectation of total return (forecast price appreciation and dividend yield) in the year specified, are as follows:

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.

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