

Equity Research | EfTEN: Winner in a downturn

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

Outstanding yields

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

Fair yield indicates portfolio upside

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

Base case Fair value EUR 21.84/shr.

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

Read the full report here https://www.emergers.se/efTEN_a/

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