

- ❖ Sales increasing rapidly
- ❖ From appreciation in value to actual sales
- ❖ Flagship Boho Club project opening soon

## Comments on the report.

**Sales increasing rapidly.** In the first half of 2019, Quartiers Properties' (QP) revenue rose sharply to SEK 56.3 million (3.2) as a result of the majority of the remaining apartments in the company's 22by Quartiers apartment project having now been sold (three of the original 22 remain), and revenues from the rental business at the company's apartment complex in Benahavis having increased. Out of the total revenues, around SEK 49 million came from apartment sales and around SEK 7 million from rental revenues. Apartment sales have generated an average of SEK 4.1 million per unit, which according to our assessment continued to generate a return of around 30% on invested capital. As revenues rise rapidly, the level of costs has also increased. This is because the rental business is now being operated in-house and above all because of start-up costs for QP's large flagship project Boho Club. The latter is expected to launch its restaurant business as early as August, with the hotel opening later in the autumn. The project is weighing on earnings, as the number of employees rose from just a few to 45 by the end of June, along with other costs, with no revenues having yet been generated. Despite this, QP reported a small operating profit of SEK 0.2 million. Investment so far of around SEK 35 million in Boho Club, along with other investments, has largely been financed through the apartment sales mentioned above. At the end of the quarter QP had interest-bearing liabilities, less cash and cash equivalents, of just over SEK 220 million. This compares with SEK 207 million at year-end 2018.

**From appreciation in value to actual sales.** Under IFRS, all of the company's properties have been reclassified as operating properties because QP has now taken over direct operation of these. However, this has the effect that no changes in the value of the property portfolio are recognised. The Board's assessment, however, is based on market valuations at year-end, and as a result of completed investments, sales and acquisitions, the property value has risen by 6% since the start of the year and by 15% since the end of Q2 last year to approximately SEK 722 million. The current share price represents a large 30% net asset value discount on the Board's assessment of the value, compared with 12% at the turn of the year. Moreover, the option in the stock that a possible return to the previous local development plan and a resulting quadrupling of the building area at the company's large property along the Golden Mile – a stone's throw from Puerto Banus in Marbella – would provide is not taken into account (see our analysis of 2/4 2019).

**Flagship Boho Club project opening soon.** It is pleasing to note that the Boho Club project should proceed according to schedule and the project could start generating revenues during the second half of the year. It also appears that the EUR 9 million investment plan for the project could be adhered to, which is unusual for this type of large, complex project. With new loans providing almost SEK 50 million in liquid funds and a financing agreement with a company that is a related party to QP, there appear to be good prospects not only for making the remaining investments in Boho Club but also to continue the project design and development of QP's next project, Ocean View (see our analysis). Completion of Boho Club would both lead to lower interest expense, as it would then allow for traditional bank financing, and to a significant increase in net asset value. Our analysis forecasts average annual growth in value of 15% over the 2019–2021 period. This is on the back of performance this spring and the results that completion of Boho Club on schedule would result in, as a conservative estimate. In terms of sales and earnings, however, the second half of the year will be significantly lower than the first half because of the lack of large revenues from apartment sales and start-up costs for Boho Club.

## THE COMPANY IN BRIEF

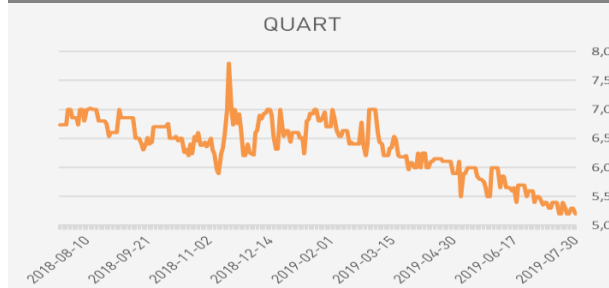
Chairman of the Board	Jörgen Cederholm
Interim CEO	Marcus Johansson Prakt
Interim CFO	Maria Cepero
List	Nasdaq First North

## KEY PERFORMANCE INDICATORS

Market value (SEK mil.)	257		
Net debt (SEK mil.)	222		
Enterprise value (SEK mil.)	479		
Equity/assets ratio (%)	53%		
Number of ordinary shares (mil.)	48.5		
Number of preference shares (mil.)	7.3		
SEK	2017	2018	2019E
Sales (SEK mil.)	10,0	29,1	74,0
Gross earnings (SEK mil.)	-1.6	-4.4	2.5
EBIT (SEK mil.)	-11.0	-21.0	-6.0*
EBT (SEK mil.)	24.0	21.0	-19.5*
EPS (SEK)	0.4	0.35	neg.
Dividend per share (SEK)	0	0	–
Net asset value (SEK mil.)	326.0	360.6	411.9
Net asset value per share (SEK)	6.73	7.44	8.50

\*Excluding changes in value

## 12-MONTH SHARE PRICE PERFORMANCE



## Increase in value of investment properties over past three years

SEK mil.	Carrying amount at 31/12/2018	Assessed additional development cost	Assessed 2021 market value	Increase in net asset value before tax
Hacienda de Cifuentos	357	20	457	80
Boho Club	98	90	250	62
Forestal Residential	65	0	65	0
<b>Total</b>	<b>520</b>	<b>110</b>	<b>772</b>	<b>142</b>

## Projects to be completed over next three years and sold

SEK mil.	Carrying amount at 31/12/2018	Assessed additional development cost	Assessed 2019–2021 sales value	Tax	Profit after tax
22ByQuartiers	38	11	75	-4	22
Ocean View	30	120	195	-11	34
Amapura & Los Flamingos	20	41	74	-2	11
<b>Total</b>	<b>88</b>	<b>172</b>	<b>344</b>	<b>-17</b>	<b>67</b>

SEK mil.				Estimate
	2017	2018	Due in 2019–2021	2021E
Carrying amount for properties	496	608		–
Surplus value according to valuation	64	88		–
<b>Total</b>	<b>540</b>	<b>696</b>		–
Recognised equity	344	373	67	440
Surplus value	64	88	142	230
Equity incl. surplus value	408	461	209	670
Preference shares	-73	-87	0	-87
Estimated tax on appreciation in value	-10	-13	-4	-17
<b>Net asset value</b>	<b>326</b>	<b>361</b>		<b>566</b>
Number of ordinary shares outstanding (mil.)	48,4	48,4	0	48,4
<b>Net asset value per share (SEK)</b>	<b>6,7</b>	<b>7,4</b>	<b>4,2</b>	<b>11,7</b>
Change from previous period		11%		57%

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