

Abitare In

FY18A Results

Abitare In - Key estimates and data					
Y/E September		2017/18A	2018/19E	2019/20E	2020/21E
Revenues	EUR M	49.05	42.23	77.83	93.27
EBITDA	EUR M	4.27	13.17	28.92	30.23
EBIT	EUR M	4.08	12.97	28.72	30.03
Net Income	EUR M	2.59	8.80	19.83	20.74
Dividend ord.	EUR	0	0	0	0
Adj. EPS	EUR	1.02	3.45	7.78	8.13
EV/EBITDA	x	21.2	7.3	2.7	1.6
Adj. P/E	x	31.6	8.6	3.8	3.6

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- FY18 results.** Driven by the flourishing Milan real estate market, which grew throughout the year in number of transactions and value, Abitare In reported solid results, having finalised the commercialisation of the Maggiolina project, successfully completing the first Milano City Village commercial campaign, and acquiring building areas on which the Milano City Village and the Cadolini projects will be developed. We also highlight that the group decided to adopt the IAS international principles starting from the FY18 financial statements, in order to give a clearer representation of its financials. **Revenues were EUR 49M** vs. EUR 9.3M in FY17; **EBITDA and EBIT were respectively EUR 4.3M and EUR 4.1M**, vs. EUR 2.4M and EUR 2.3M in FY17, giving margins between 8% and 9%; **Net profit was EUR 2.6M**, vs. EUR 1.1M in FY17, following a 30% tax rate on a EUR 3.7M EBT; **Net debt was EUR 8.8M** vs. EUR 0.1M in FY17, mainly due to the increase in financial debt following the start-up of mortgage loans by the subsidiaries Milano City Village s.r.l., Milano Progetti s.r.l. and Abitare In Development 3 s.r.l.
- Outlook.** According to Scenari immobiliari and Sigest Study Center, Milan has become one of the most popular destinations for students, tourists, businesses and investments in Europe. The real estate market in the city is dynamic, both in terms of number of transaction and value. In this lively context, the group acquired two new areas on which new projects should arise in addition to the current pipeline, which comprises four residential projects whose deliveries are expected to take place between 2020 and 2023: Maggiolina, Tacito, Somalia and Cadolini. We expect these projects to generate cumulative revenue of approximately EUR 392M, EBITDA of EUR 140M and a net profit of EUR 90M within this period.
- Estimates and valuation.** We valued Abitare In using a DCF approach, considering the flows arising from the projects currently underway, Maggiolina, Tacito, Somalia and Cadolini. We expect the company to start receiving flows from Maggiolina in FY20, Tacito in FY21, Somalia between FY21 and FY22, and lastly Cadolini between FY22 and FY23. **We derived a target price of EUR 42.9/share.** Our target price is at a premium of around 45% on current prices and we therefore **maintain our BUY rating on the stock.**
- Key risks.** In our view, the key risks are: 1) real estate market conditions, which are cyclical and conditioned by a series of variables such as, general economic conditions, changes in interest rates, inflation trends, tax legislation and the market liquidity; 2) given the medium-long term duration of the projects, if a project closure is delayed vs. the scheduled deadline, the group risks incurring higher than expected costs, endangering the overall profitability of the group; and 3) the specific activity carried out by the SPVs' does not allow the group to determine with a sufficient degree of certainty the success and realisation time of the real estate initiatives during the execution phase, due to the presence of partly uncontrollable factors.

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Date and time of production

BUY

Target Price: EUR 42.9
(from EUR 42.3)

Italy/Real Estate
Company Update

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Price performance, -1Y

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Source: FactSet

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Target price (€)	42.9
Target upside (%)	45.11
Market price (€)	29.54
52Wk range (€)	33.8/26.6
Market cap (€ M)	75.33
No. of shares	2.55
Free float (%)	52.0
Major shr (%)	GOZZINI
Reuters	ABIT.MI
Bloomberg	ABT IM
FTSE AIM	922

Performance %			
Absolute	Rel. to FTSE AIM		
-1M	1.9	-1M	-3.4
-3M	5.5	-3M	13.9
-12M	-11.0	-12M	2.2

*unless otherwise indicated within report. Source: FactSet and Intesa Sanpaolo Research estimates

See page 13 for full disclosures and analyst certification
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FY18 Results

Milan residential market

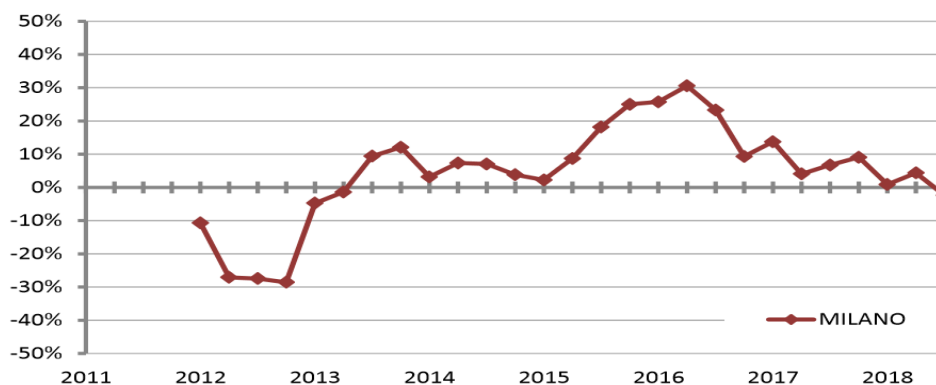
In 2018 in Lombardy average sales prices for residential units returned to 95.8% of the nominal value recorded in 2007, an increase of 1.2% compared to 2017. In Italy, on the other hand, prices have continued their decline, losing 0.1% on the previous year and stopping at 83.9% of the values recorded in 2007.¹

Average Lombardy sales prices in 2018 for residential units returned to 95.8% of value of 2007

Focusing on the city of Milan, the renewed urban quality, combined with the consolidation of the economic fundamentals, have made the city one of the most popular destinations for students, tourists, businesses and investments in Europe. According to Scenari Immobiliari, the number of transaction (NTN) comprising residential units should have reached 36k at the end of 2018, an 8.4% increase over 2017. For the first time in over ten years the annual growth in turnover (more than 8.7%) increased at a faster pace than the increase in the number of sales, thanks to the consolidation of the growth in property prices in the semi-central areas of the city.

In 3Q18 the NTN in Milan decreased by 2.4% compared to 3Q17, the first negative variation yoy since the second quarter of 2013 (source Osservatorio Mercato Immobiliare, OMI).

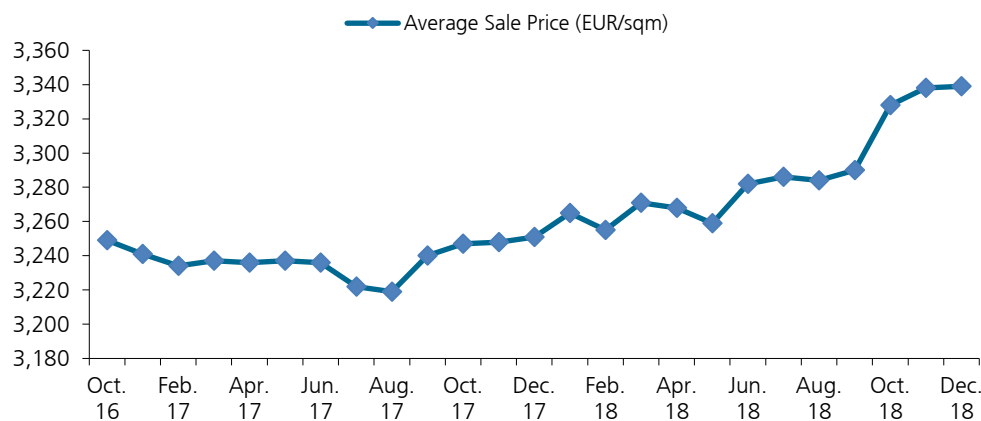
Milan NTN quarterly chg % (1Q12-3Q18)



Source: OMI

Looking at Immobiliare.it data, In December 2018 the average selling price for residential properties was EUR 3,339/sqm, vs. EUR 3,251/sqm in December 2017, +2.7% yoy. The value recorded in December was also the highest of the year.

Residential units average sales price in Milan (EUR/sqm)



Source: Immobiliare.it

¹ Source: Scenari Immobiliari

According to Sigest Study Center the growth in housing demand is fostered by the dynamism of the city's economy. Milan (the district that also includes Monza, Brianza and Lodigiano) is the first Italian production centre, with a GDP of almost EUR 185Bn per year, which places it in fourth place in Europe after London, Paris and the German region of Rhur. Sixth place if we consider GDP per capita, equal to almost EUR 45,000.

Still according to Sigest, one of the main gaps between the supply on the market and the demand is represented by the housing energy class: the demand for buildings with a high-energy standard is much higher than availability.

Housing energy class supply and demand (2007 vs. 2017)				
Year	2007		2017	
	Supply	Demand	Supply	Demand
A or B	4%	11%	7%	22%
C or D	8%	19%	12%	26%
Less than D	88%	70%	80%	54%

Source: Sigest Study Center

FY18 results

In order to give a clearer representation of its financials, the group has decided to adopt the IAS international principles starting from the FY18 financial statements. Therefore, the Consolidated Financial Statements as at 30 September 2017 have been restated to IFRS international accounting standards in compliance with the provisions of IFRS1 "First Adoption of International Financial Reporting Standards"; for this purpose, the 1st October 2016 was identified as the transition date to the IFRS. We highlight that the financial year for Abitare In ends in September.

The group has adopted the IAS international principles as from the FY18 financial statements

The main takeaways from the FY18 results were the following:

- To support the acceleration of the development of new projects, the company decided to raise new capital of EUR 27M, collected from institutional investors between May and June 2018;
- **Revenue amounted to EUR 49M** vs. EUR 9.3M in FY17A, mainly composed of the change in inventories related to real estate initiatives. In particular, the increase in revenues was due to the acquisition of two areas for the construction of two real estate projects (via Tacito - Milan City Village - and via Cadolini), as well as the continuation of construction works of the "Abitare In Maggiolina" project;
- **EBITDA and EBIT were respectively EUR 4.3M and EUR 4.1M**, vs. EUR 2.4M and EUR 2.3M in FY17, giving margins between 8% and 9%;
- **Net profit was EUR 2.6M**, vs. EUR 1.1M in FY17A, following a 30% tax rate on a EUR 3.7M EBT;
- **Net debt was EUR 8.8M** vs. EUR 0.1M in FY17A, mainly due to the increase in financial debt following the start-up of mortgage loans by the subsidiaries Milano City Village s.r.l., Milano Progetti s.r.l. and Abitare In Development 3 s.r.l.

FY18 revenues rose to EUR 49M

Net debt rose to EUR 8.8M in FY18

Abitare In – FY18 key results			
EUR M	FY17A	FY18A	chg. yoy %
Revenue from services	19.5	0.6	NM
Change in Inventories	-10.4	48.2	NM
Total Revenues	9.3	49.0	NM
EBITDA	2.4	4.3	79.1
EBITDA margin %	26	9	
EBIT	2.3	4.1	74.7
Net Income	1.1	2.6	NM
Net debt	0.1	8.8	NM

NM: not meaningful; Source: Company data

In FY18, Abitare In completed the deeds for the acquisition of the areas on which the "Tacito" and "Cadolini" projects will be developed. Furthermore, it signed the preliminary contract for the purchase of a building complex, located in the Piazzale Accursio area of Milan, whose deed occurred after the closing date of the financial year (the "Somalia" project).

Regarding the real estate developments currently under way, the construction of the "Abitare In Maggiolina" project proceeded and the activities related to the authorisation process for the "Milano City Village" project were completed. In November 2018, the group also completed the commercialisation of all the apartments put up for sale for the Milano City Village project, after only two commercial campaigns, vs. the four forecast.

Earnings Outlook

The group recently announced that it had signed preliminary contracts for the purchase of two new areas: the first in the Porta Romana district and the second in Viale Umbria. These initiatives confirm the group's effort to increase the building area in its portfolio on which future potential projects should arise. The deeds are expected to take place in FY19.

Preliminary contracts signed for the purchase of two new areas in Porta Romana and Viale Umbria

Currently, Abitare In has four residential projects in the pipeline over the next five years, whose deliveries are expected to take place between 2020 and 2023: Maggiolina, Tacito, Somalia and Cadolini.

For the projects in pipeline, we made the following assumptions:

Abitare In - Maggiolina key assumptions	
Price/sqm (k)	4.4
average sqm	108
Housing units	125
Garage	125
Garage price (k)	34
Revenue (EUR M)	63.7
Total costs/sqm (k)	3.1
Gross margin (EUR M)	28.6
EBIT (EUR M)	24.6
Net income (EUR M)	17.2

Source: Intesa Sanpaolo Research elaboration on Company data

Abitare In - Tacito key assumptions	
Price/sqm (k)	3.8
average sqm	92
Housing units	212
Garage	212
Garage price (k)	26.5
Revenues	79.7
Total costs/sqm (k)	3.5
Gross margin (EUR M)	21.4
EBIT (EUR M)	20.1
Net income (EUR M)	14.1

Source: Intesa Sanpaolo Research elaboration on Company data

Abitare In - Somalia key assumptions	
Price/sqm (k)	4
average sqm	92
Housing units	130
Garage	130
Garage price (k)	26.5
Revenues	51.5
Total costs/sqm (k)	3.6
Gross margin (EUR M)	18.6
EBIT (EUR M)	18.2
Net income (EUR M)	12.8

Source: Intesa Sanpaolo Research elaboration on Company data

Abitare In - Cadolini key assumptions	
Price/sqm (k)	3.7
average sqm	92
Housing units	538
Garage	538
Garage price (k)	26.5
Revenues	197.4
Total costs/sqm (k)	3.1
Gross margin (EUR M)	79.2
EBIT (EUR M)	77.3
Net income (EUR M)	54.1

Source: Intesa Sanpaolo Research elaboration on Company data

In May 2018, the company was recognised as an Innovative SME. The main benefits for companies belonging to this category are:

Recognised as an Innovative SME in May 2018

- Flexibility, as innovative SMEs envisage flexible management of the company based on which it is possible to issue participating financial instruments, offering its own shares as capital;
- They can incentivise and remunerate their employees, internal and external (consultants), through the allocation of shares, with stock opinions or with work-for-equity schemes, which are set to be tax free;
- They may benefit from tax incentives on investments, both direct and indirect: when investments are made by legal entities, they can benefit from tax deductions on IRES of about 20%, while investments made by individual investors are subject to tax deductions on IRPEF of 19%;
- They can raise capital under the equity crowdfunding regime;
- They benefit from simplified and free access to the Central Guarantee Fund;
- In the case of repeated losses, they can utilise a special regime, with facilitations on the settlement of losses, if they exceed one third of the share capital.

Valuation

We valued Abitare In using a DCF approach, considering the flows (net of taxes) coming from the projects currently underway, Maggiolina, Tacito, Somalia and Cadolini. We expect the company to start receiving flows from Maggiolina in FY20, Tacito in FY21, Somalia between FY21 and FY22, and finally Cadolini between FY22 and FY23.

We also highlight that the recent announcement regarding the signing of preliminary contracts for new areas in Porta Romana and Viale Umbria demonstrates the groups engagement in scouting new opportunities in order to continue realising real estate initiatives in addition to the current pipeline.

DCF valuation

We used the following key assumptions in our valuation:

- An 8.66% WACC, incorporating a risk-free rate of 2.75%, an equity risk premium of 6.50% and a gearing ratio of 17.6%;

Abitare In – WACC calculation (%)	
Gross debt rate	3.0
Tax rate	24.0
Net debt rate	2.3
Beta Levered	1.0
Gearing	17.6
Beta Re-Levered	1.0
Risk free rate	2.8
Equity risk premium	6.5
Cost of equity	9.3
WACC	8.7

Source: Intesa Sanpaolo Research estimates

- A 0% long term (LT) growth;
- A LT flow from new projects of EUR 5M vs. an average of around EUR 19M in FY19-23E. However, it is worth highlighting that the FY19-23 projects were subject to favourable market conditions, with low acquisition costs, and therefore in our approach we assumed a possible increase in the overall costs of future projects.

Abitare In – DCF calculation						
EUR M	2019E	2020E	2021E	2022E	2023E	LT
Maggiolina	0.0	17.2	0.0	0.0	0.0	
Tacito	0.0	0.0	14.1	0.0	0.0	
Somalia	0.0	0.0	4.5	8.3	0.0	
Cadolini	0.0	0.0	0.0	49.6	4.5	
DIV from new projects	0.0	0.0	0.0	0.0	0.0	
FCF	0.0	17.2	18.6	57.9	4.5	5.0
Discounted FCF	0.0	15.8	15.8	45.1	3.2	3.3
WACC (%)	8.66					
TV growth (%)	0.0					
Sum	80					
TV	38					
EV	118					
Net debt	9					
Equity	109					
Target price (EUR/share)	42.9					

E: estimates; Source: Intesa Sanpaolo Research estimates

We derived a target price of EUR 42.9/share. Our target price is at a premium of around 45% on current prices, implying a BUY rating on the stock.

Target price of EUR 42.9/share

Sensitivity analysis

- If we assume that Abitare In activities terminate with the current projects, i.e. with a nil LT flow, the DCF valuation indicates a value broadly in line with current share price. We regard this assumption as unrealistic, considering the ongoing scouting by management for new building opportunities, and the recent preliminary agreements signed for the acquisition of new areas in Porta Romana and Viale Umbria;

Abitare In – DCF calculation with no LT						
EUR M	2019E	2020E	2021E	2022E	2023E	LT
Maggiolina	0.0	17.2	0.0	0.0	0.0	
Tacito	0.0	0.0	14.1	0.0	0.0	
Somalia	0.0	0.0	4.5	8.3	0.0	
Cadolini	0.0	0.0	0.0	49.6	4.5	
DIV from new projects	0.0	0.0	0.0	0.0	0.0	
FCF	0.0	17.2	18.6	57.9	4.5	0.0
Discounted FCF	0.0	15.8	15.8	45.1	3.2	0.0
WACC (%)	8.66					
TV growth (%)	0.0					
Sum	80					
TV	0					
EV	80					
Net debt	9					
Equity	71					
Target price (EUR/share)	27.9					

E: estimates; Source: Intesa Sanpaolo Research estimates

- As previously mentioned, our LT flow already incorporates less favourable market conditions than those achieved for starting the existing four projects;
- A 5% contraction in flows from projects (due to an increase in building costs, reduction of selling prices, increase in financing costs, or a combination of these three items) would imply a EUR 1.6/sh. erosion of our EUR 42.9/sh. TP (a 3.7% contraction). In the table below we report a sensitivity to flow contractions;

Abitare In – Sensitivity to flow contractions				
Flow contractions (%)	-5	-10	-15	-20
Fair value (EUR/sh)	41.3	39.8	38.2	36.6
Chg. vs. TP (%)	-3.7	-7.3	-11.0	-14.6

Source: Intesa Sanpaolo Research estimates

- A one year delay in finalising the existing four projects would imply a EUR 3.7/sh. erosion of our EUR 42.9/sh. TP (an 8.6% contraction).

Abitare In - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector			Free float (%)	Reuters Code
BUY	Ord 42.9	Ord 29.54	Real Estate			52.0	ABIT.MI
Values per share (EUR)							
	2016/17A	2017/8A	2018/19E	2019/20E	2020/21E		
No. ordinary shares (M)	2.55	2.55	2.55	2.55	2.55		
No. NC saving/preferred shares (M)	0.00	0.00	0.00	0.00	0.00		
Total no. of shares (M)	2.55	2.55	2.55	2.55	2.55		
Market cap (EUR M)	66.91	81.82	75.33	75.33	75.33		
Adj. EPS	0.44	1.02	3.45	7.78	8.13		
CFPS	0.45	1.1	3.5	7.9	8.2		
BVPS	4.7	16.0	19.4	27.2	35.4		
Dividend ord	0	0	0	0	0		
Income statement (EUR M)							
	2016/17A	2017/8A	2018/19E	2019/20E	2020/21E		
Revenues	9.26	49.05	42.23	77.83	93.27		
EBITDA	2.38	4.27	13.17	28.92	30.23		
EBIT	2.34	4.08	12.97	28.72	30.03		
Pre-tax income	2.16	3.70	12.57	28.32	29.63		
Net income	1.13	2.59	8.80	19.83	20.74		
Adj. net income	1.13	2.59	8.80	19.83	20.74		
Cash flow (EUR M)							
	2016/17A	2017/8A	2018/19E	2019/20E	2020/21E		
Net income before minorities	1.1	2.6	8.8	19.8	20.7		
Depreciation and provisions	0.0	0.2	0.2	0.2	0.2		
Others/Uses of funds	0	0	0	0	0		
Change in working capital	8.0	-42.0	-40.8	-6.2	4.0		
Operating cash flow	9.1	-39.3	-31.8	13.8	25.0		
Capital expenditure	-0.5	0.6	-0.5	-0.5	-0.5		
Financial investments	0	0	0	0	0		
Acquisitions and disposals	0	5.4	0	0	0		
Free cash flow	8.7	-33.3	-32.3	13.3	24.5		
Dividends	0	0	0	0	0		
Equity changes & Other non-operating items	13.2	15.1	0	0	0		
Net cash flow	21.9	-18.2	-32.3	13.3	24.5		
Balance sheet (EUR M)							
	2016/17A	2017/8A	2018/19E	2019/20E	2020/21E		
Net capital employed	27.6	90.6	138.8	163.8	216.4		
of which associates	0	0	0	0	0		
Net debt/-cash	0.1	8.8	20.4	3.8	-25.8		
Minorities	0	0	0	0	0		
Net equity	12.1	40.8	49.6	69.4	90.2		
Minorities value	0	0	0	0	0		
Enterprise value	67.0	90.6	95.7	79.2	49.5		
Stock market ratios (x)							
	2016/17A	2017/8A	2018/19E	2019/20E	2020/21E		
Adj. P/E	59.1	31.6	8.6	3.8	3.6		
P/CFPS	58.2	30.0	8.4	3.8	3.6		
P/BVPS	5.5	2.0	1.5	1.1	0.84		
Payout (%)	0	0	0	0	0		
Dividend yield (% ord)	0	0	0	0	0		
FCF yield (%)	12.9	-40.7	-42.9	17.7	32.5		
EV/sales	7.2	1.8	2.3	1.0	0.53		
EV/EBITDA	28.1	21.2	7.3	2.7	1.6		
EV/EBIT	28.7	22.2	7.4	2.8	1.6		
EV/CE	2.4	1.0	0.69	0.48	0.23		
D/EBITDA	0.04	2.1	1.6	0.13	Neg.		
D/EBIT	0.04	2.2	1.6	0.13	Neg.		
Profitability & financial ratios (%)							
	2016/17A	2017/8A	2018/19E	2019/20E	2020/21E		
EBITDA margin	25.7	8.7	31.2	37.2	32.4		
EBIT margin	25.2	8.3	30.7	36.9	32.2		
Tax rate	47.5	30.0	30.0	30.0	30.0		
Net income margin	12.2	5.3	20.8	25.5	22.2		
ROCE	8.5	4.5	9.3	17.5	13.9		
ROE	11.3	9.8	19.5	33.3	26.0		
Interest cover	-2,121.4	-776.0	NM	NM	NM		
Debt/equity ratio	0.8	21.6	41.2	5.5	-28.6		
Growth (%)							
	2016/17A	2017/8A	2018/19E	2019/20E	2020/21E		
Sales		NM	-13.9	84.3	19.8		
EBITDA		79.1	NM	NM	4.5		
EBIT		74.7	NM	NM	4.5		
Pre-tax income		71.4	NM	NM	4.6		
Net income		NM	NM	NM	4.6		
Adj. net income		NM	NM	NM	4.6		

NM: not meaningful; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes

Notes

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Equity Research Publications in Last 12M

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Valuation methodology (long-term horizon: 12M)

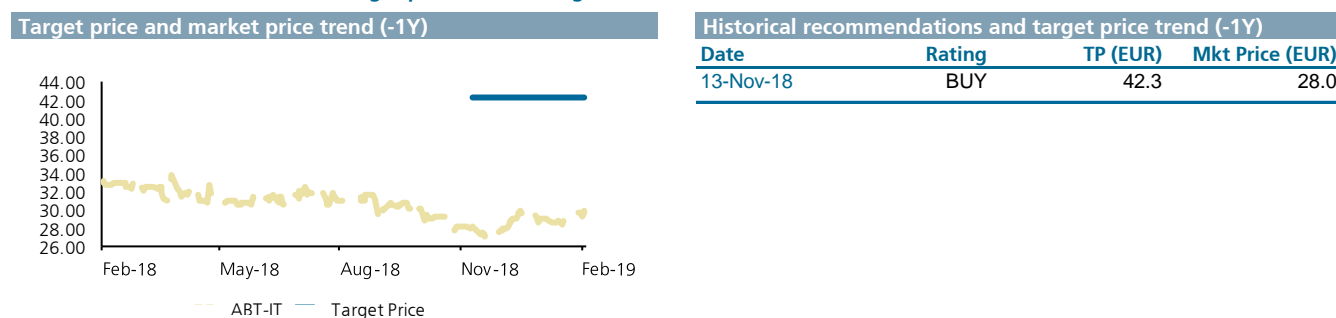
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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
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TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)



Equity rating allocations (long-term horizon: 12M)

Intesa Sanpaolo Research Rating Distribution (at February 2019)					
Number of companies considered: 107	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	53	21	23	2	1
of which Intesa Sanpaolo's Clients (%) (*)	84	41	36	0	100

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

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Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
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- 3 Banca IMI acts as Corporate Broker relative to securities issued by Abitare In

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