

AbitareIn

Rating
BUY

Target price
EUR61.8
(from EUR47.8)

Perfectly positioned for a Milan property boom

AbitareIn's innovative and disruptive business model, coupled with a strong focus on integrated marketing strategies, positions the group as a key beneficiary of Milan's burgeoning housing market recovery. The model is uniquely sensitive to the rising reevaluation of local real estate market conditions. Milan, AbitareIn's key reference market, is a textbook case offering plenty of opportunity.

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AbitareIn's first two projects, AbitareIn Poste and AbitareIn Maggiolina, have been runaway successes, selling out even before construction began. The group was quick to capitalise on this success with its Milano City Village project, and has since added BelVill in Via Cadolini and AIS in Via Privata Somalia to the pipeline.

Building on an established track record of delivering on projects with targeted marketing and sales campaigns based on Salesforce applications, AbitareIn has further strengthened this function with a recent minority investment in TecMa Solutions, a company specialising in technical marketing dedicated to real estate.

We expect AbitareIn to complete its current "legacy" projects by 2023. The group has already begun new projects, further confirming its talent for identifying Milan's most exciting areas and securing land on which to replicate AbitareIn's proven model.

Closing price
EUR43

Lastly, we expect Milan's succesful bid to host the Winter Olympics in 2026 to further attract international investors to the city's real estate market. In this report we raise our target price from EUR47.8 to EUR61.8, indicating 43.7% upside.

Market cap
EUR110m

Bloomberg
ABT:IM

Key Financial and ratio	16/17A	17/18A	18/19A	19/20E	20/21E
Booking	54,0	146,0	190,0	200,0	310,0
Revenues	9,3	49,0	42,0	121,6	143,0
EBT	2,2	3,7	9,5	14,2	50,5
Net margin	11,9%	5,3%	n/m	9,5%	24,9%
EPS	0,43	1,01	2,51	4,50	13,94
P/E	75,5	31,0	12,0	9,8	3,2
EV/Sales	5,6	1,4	2,4	1,3	0,8
EV/EBT	24,2	14,1	5,5	3,7	1,0

Source: Hammer Partners' estimates

AbitareIn
is a research client of
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Profit and Loss Account (Eur m)	16/17A	17/18A	18/19A	19/20E	20/21E
Booking*	54,0	146,0	190,0	200,0	310,0
Sales	9,3	49,1	44,6	121,6	143,0
% change	19223,1%	429,7%	-9,1%	172,6%	17,6%
Total costs	-6,9	-44,8	-60,2	-105,5	-46,7
Ebitda	2,4	4,3	11,4	16,1	51,7
% change	5521,3%	79,4%	166,4%	41,3%	221,7%
% revenue	26,6%	15,3%	32,1%	21,4%	90,7%
Depreciation and amortization	-0,04	-0,19	-0,57	-0,57	-0,57
Ebit	2,3	4,1	10,8	15,5	51,1
% revenue	26,1%	14,6%	30,5%	20,7%	89,7%
Financial results	-0,2	-0,4	-1,4	-1,3	-0,6
Earnings before taxes	2,2	3,7	9,5	14,2	50,5
Taxes on income	-1,1	-1,1	-3,1	-5,0	-15,2
Net income	1,0	2,6	6,4	9,2	35,4
% change	-1163,4%	151,5%	146,1%	44,3%	284,4%
% revenue	11,5%	9,3%	18,0%	12,3%	62,1%

Balance sheet	16/17A	17/18A	18/19A	19/20E	20/21E
Fixed asset	0,76	0,70	6,71	9,27	0,52
Current asset	17,2	43,7	71,2	123,4	47,8
Cash and banks	9,1	13,8	18,0	21,7	84,6
Total asset	27,1	58,2	95,9	154,4	132,9

Equity	12,8	12,7	40,8	47,5	53,9
Long-term liabilities	6,8	21,4	46,3	80,2	27,0
Current liabilities	7,5	24,1	8,8	26,7	52,0
Total liabilities and equity	27,1	58,2	95,9	154,4	132,9

* Booking refers to the sum of preliminary purchase deeds of the year only, excluding clients' proposal

Cash flow statement	16/17A	17/18A	18/19A	19/20E	20/21E
Net cash flow from operating activities	11,4	-12,0	-13,6	-21,0	12,0
Net cash flow from (used in) investing activities	0,0	0,0	-0,5	-0,5	0,0
Net cash flow used in financing activities	14,2	18,2	0,0	0,0	-14,1
Cash flow for the year	6,2	2,2	-14,1	-21,5	40,0
Closing net cash and equivalents	-2,5	7,5	18,0	44,0	5,0

Return & margins	16/17A	17/18A	18/19A	19/20E	20/21E
Ebitda margin	26,6%	15,3%	32,1%	21,4%	90,7%
Net income margin	11,5%	9,3%	18,0%	12,3%	62,1%
ROIC	22,4%	20,1%	29,9%	86,3%	-1364,9%
ROE %	8,0%	20,4%	15,6%	19,4%	65,6%

Milan housing market update

Prices and conditions of sale on sustained recovery trend

Milan's real estate market is currently undergoing a multi-year recovery phase that began after the trough in August 2017. As reported by the association of real estate brokers, property sentiment in Milan is upbeat, posting declines in both the discount required to close a transaction and in the time needed to sell.



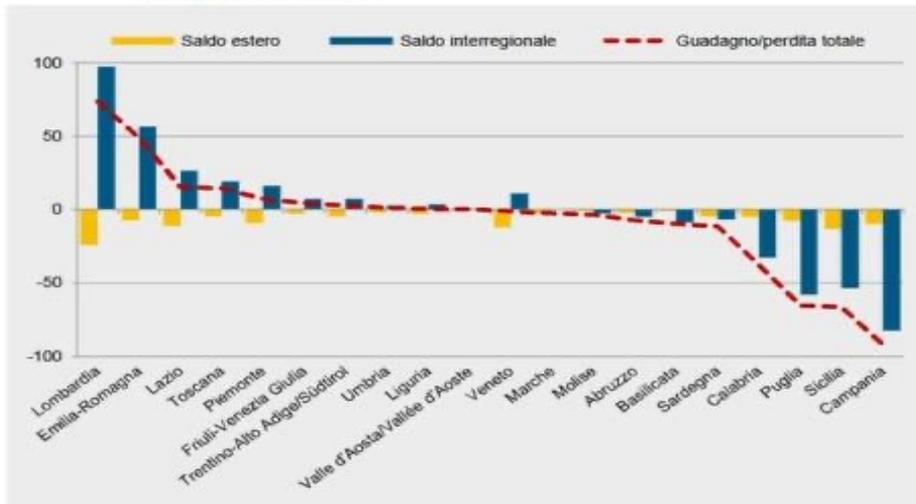
Source: Immobiliare.it

The positive price trend can be attributed to several factors that we have highlighted in previous reports:

- 1) Positive long-term demographic trends:** in the next ten years Milano will gain 150,000 gross new citizens, with net growth of 4-5% (Source: Comune di Milano PGT). In our opinion these numbers must be read in conjunction with the resident population figures, which have been declining over the past decade.

In the following graph we can see how Lombardia region is among the few in Italy in the past ten years to have experienced positive net migration. We expect this trend to continue and to increasingly benefit Milan.

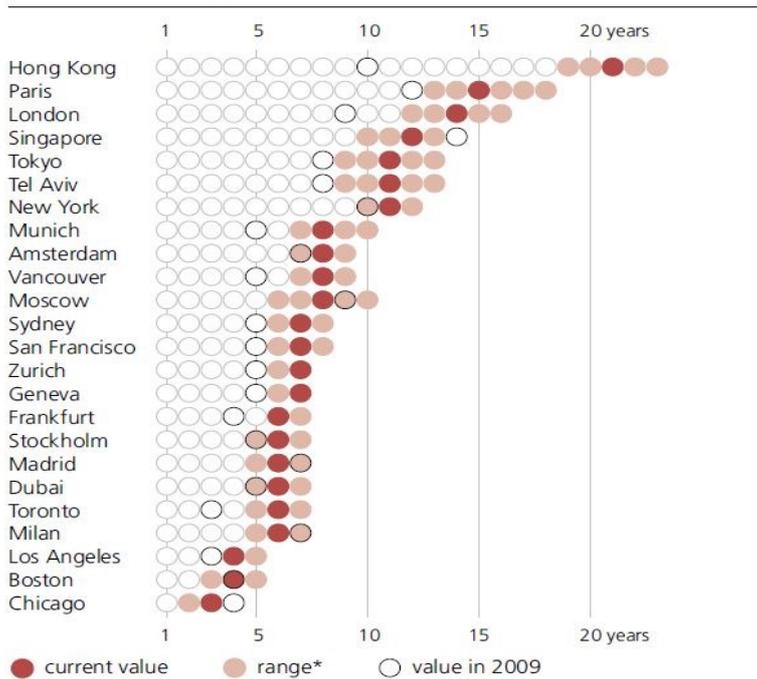
Figura 3.17 Saldo migratorio con l'estero, saldo interregionale e guadagno/perdita totale dei giovani italiani dai 20 ai 34 anni con livello di istruzione medio-alto. Anni 2008-2017 (valori in migliaia)



Fonte: Istat, Iscrizioni e cancellazioni dall'Anagrafe per trasferimento di residenza

- 2) **Affordability of real estate vis-a-vis other top locations:** in economic terms the trend outlined in point 1 is also due to the relative affordability of real estate for young professionals relocating to Milan, as highlighted in the follow graph:

The number of years a skilled service worker needs to work to be able to buy a 60m² (650 sqft) flat near the city center

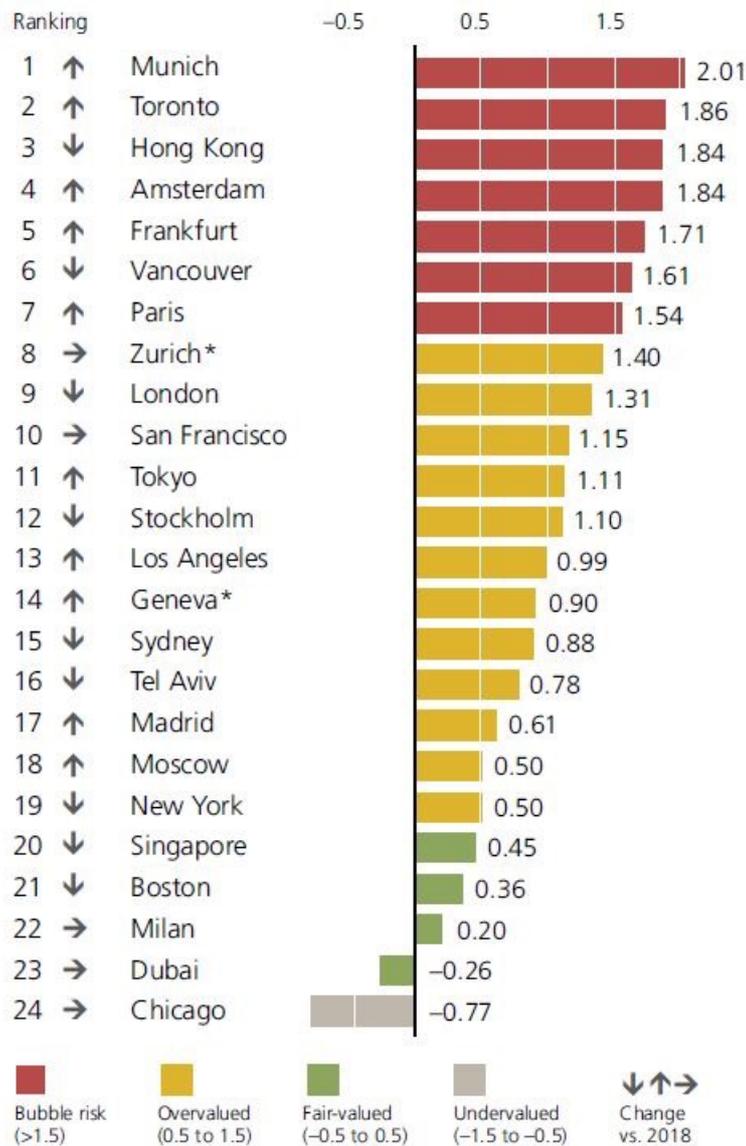


Source: UBS. Remark: For explanation see the section on Methodology & data on page 24. * Uncertainty range due to differing data quality

- 3) **No bubble in sight, yet:** It is also the market's view that Milan's recovery cycle, despite the good price performance, is still in its infancy. Moreover, infrastructure investments, general requalification and gentrification of the most central areas will likely lead investors in the most overvalued European centres to relocate part of their property portfolios to Milan.

UBS Global Real Estate Bubble Index

Index scores for the housing markets of select cities, 2019



Source: UBS * Index altered due to data source revision.

2026 Winter Olympics

Development programme through 2030

The International Olympic Committee has selected Milan-Cortina to host the Winter Olympics in 2026. While it is difficult to assess the real impact on the economy of Milano, Bocconi University estimates that an additional 5,500 jobs will be created in Milan alone (out of a total 20,000 in Lombardia) with a total value added of EUR1.2bn.

The Winter Olympics represents the mid-point in Milan's upgrade plan set for completion by 2030. The plan, as approved by Comune di Milano on 14 October 2019, envisions five cornerstones:

1) Make Milan a truly connected global city

Milano aims to achieve this target through infrastructure investments which will include a railway ring representing an efficient circle line, the completion of the Line 4 of the subway allowing to reach the city airport Linate from the center in 14 minutes.

2) Make Milan an inclusive town offering opportunities for everyone

The Winter Olympics will be the perfect opportunity to create new jobs that will primarily be filled by young professionals.

3) Make Milano a green, sustainable city, liveable and resilient

One of the current biggest problem for Milano and its attractiveness is pollution. The Plan aims to create a metropolitan park merging together the North and South park in order to give Milano a green "lung". Other tasks will be the recovery of some areas that were used by the railway system. One of them is Scalo Romana, where the Olympic Village will be erected, not far way from AI's Milano City Village.

4) Make Milan's 88 areas truly integrated

Once again this will be achieved thanks to new and modern infrastructure in a logic that puts a premium on a sustainable public transportation system.

5) Make Milan a town that regenerates itself

Urban regeneration projects such as Abitare's will be supported as a way to improve the quality of city life.

We expect the concurrent implementation of the Winter Olympics and Milano 2030 plan to generate a positive loop that will propel Milan into the realm of elite European capitals, allowing it to attract young, affluent professionals from the rest of Italy and other parts of Europe. According to INPS (Italian national Institute for Pensions) 54% of Italy's top earners (people earning more than EUR533,000 a year) live in Milan.

AbitareIn update

Status of legacy projects and new developments

So far AbitareIn has completed, AbitareIn Poste; AbitareIn Maggiolina will be completed by end 2020, on schedule.

The following table outlines the sales trend for AbitareIn Maggiolina from start to sell out.

Date	List increase	Received Proposals	Signed agreements	Sold value
1st event	+15%*	43	36	EUR19,5m
2nd event	4%	44	35	EUR18,5m
3rd event	3%	55	41	EUR19,9m
4th event	4%	13	9	EUR4,5m
Total		155	121	EUR62,5m

Source: Abitare In

*+15% compared to BP IPO

Here we present again the table last seen in our December 2018 update, as it remains relevant to AbitareIn's upcoming projects in the current context of price recovery in the Milan real estate market.

New developments: Milano City Village

AbitareIn purchased the land where Milano City Village will be developed for EUR13.5m in 2018.

We believe that this development testifies to the group's marketing prowess as the entire project has been placed one year before the estimates of the same AbitareIn.

The first marketing event started in early summer Of 2018, and closed with an outstanding 85% of apartments sold on 26 July 2018 for the first lot.

The second marketing event opened on 12 October 2018 selling the 100 apartments of the second building "City Garden" and in January 2019 the development was 100% sold. Revenues generated by the preliminary deeds exceeded EUR78m, which will be increased by the sale of the penthouses and additional parking spaces.

Milano City Village is a typical AbitareIn development: quality of life with access to services and transportation, a 6,000 sq m park at an affordable price without neglecting upscale accessories.

The project is expected to be fully delivered in 2021-22. We estimate that it will generate revenues of around EUR80m and EBT at around EUR20m.

Belvill (Via Cadolini)

Belvill will be situated not far away from Milano City Village, on a plot acquired in July 2018. This will be AbitareIn's biggest project to date, with 545 apartments expected to be delivered in 2022-23. Sales will start in 2020. The project is expected to generate revenues of EUR195m and EBIT of EUR55.4m.

Trilogy Towers (Via Privata Somalia)

This area was acquired in February 2018, with closing executed in October. The area boasts ideal access to highways and is close to a mid-sized mall. In the immediate vicinity the US will build its new Milan Consulate, in a move away from the city centre.

Trilogy Towers has a total of 135 apartments, expected to be delivered in 2022.

New initiatives and strategic positioning

Over the course of 2019, AbitareIn has announced several new initiatives, including:

1. **Signed a preliminary deed to purchase a real estate complex** of about 4,000 sq m gross floor area (GFA) in the Certosa surroundings (close to Trilogy Towers development). The price has been set EUR2.6m and the deal will be closed by the end of the year.
2. **Signed a preliminary deed to purchase an area of 15,000 sq.m GFA** in Milan's trendy Naviglio Grande area. The price has been set at EUR18.5m and the deal will be closed by 15 July 2020. This deal has been followed in the same area by the purchase of Palazzo Naviglio in October 2019 for EUR5m (6,750 sq.m GFA). Two other areas have been purchased between July and November 2019 which will allow AbitareIn to build 12,600 sq.m GFA (purchased for EUR7.8m, closing in September, 2020) and 6,700 sq.m. GFA (purchased for EUR6m, closing in March 2020).
3. **Signed a preliminary deed to purchase a real estate complex about 10,000 sq.m GFA** in Piazzale Accursio. This is another new initiative for AbitareIn in the area, one of the most promising in Milan as it has experienced much requalification activity.
4. **Signed a preliminary deed to purchase a real estate complex of 10,000 sq m GFA** in Piazza Corvetto. The price has been set at EUR15.6m. The deal was closed within 31 December 2019.
5. **Signed a preliminary deed to purchase two areas in Lambrate dubbed the "Design District"**. The two areas will allow AbitareIn to build 6,300 sq m GFA and 8,500 sq m GFA, with prices set at EUR2.3m and EUR5.3m and closing expected in March 2020 and September 2020, respectively.
6. **Signed a preliminary deed to purchase a real estate complex about 5,000 sq.m GFA** in the soon-to-become trendy area dubbed NoLo (North of Loreto), in December 2018 and completed in April 2019 where Abitare bought a piece of land to be developed in the Porta Romana District.

Investment in TecMa Solutions

AbitareIn purchased 10% of TecMa Solutions in May of 2019. TecMa specialises in technical marketing dedicated to real estate. While the investment in TecMa is not large, we expect the stake to be instrumental in helping AbitareIn generating leads and to shorten the time of sales campaigns.

Start-Up of Homizy

AbitareIn recently announced a new business venture called Homizy. Homizy will be dedicated to the development of real estate that will get a return through the rent of co-housing solutions. AbitareIn foresees a total investment in the region of EUR175m to reach critical mass and a leadership position. To exploit the expertise developed by AbitareIn, Homizy's business model will focus on the requalification of areas and the development of new buildings, where apartments can be allocated enough space to accommodate private rooms with shared areas such as living rooms and kitchens. An alternative will be a studio with shared services like co-working, bike-labs, fitness and leisure areas. We believe it is too early to incorporate Homizy into our estimates, but we expect this new initiative to get more visibility in 2020.

Recent results

AbitareIn released results through 30 September on 18 December 2019. Apart from a strong expected pipeline that foresees the development of 190,000 sq.m, Abitare has so far booked 485 units for an expected value of EUR190m, on top of which it has received advanced payments for EUR55.8m. Actual results were consolidated revenues at EUR44.6m generating an EBT of EUR9.4m, in line with expectations.

Driven by the new business plan: estimates through 2021

In Q4 AbitareIn has released its new business plan covering the years through 2021. According to the plan Abitare is expected to develop 2,050 apartments, which are expected to generate cumulative revenues of EUR800m.

The new business plan covers the years through 2021, with results expected to be driven by the initiatives outlined above. In terms of pipeline, we believe that AbitareIn will be able to continue to experience favourable market conditions for marketing and selling its product rather quickly. In fact, Naviglio Grande and Corvetto has already been successfully launched while Savona will enjoy a shorter time to market.

We expect the group to grow revenues to EUR121.6m this year followed by EUR143m in 2020-21. This will allow EBT to grow from current EUR9.5m currently to EUR14.2m and then to EUR50.5m.

Valuation

We value AbitareIn using a DCF model based on the following base assumptions:

1. Development of projects in line with AbitareIn's estimates.
2. WACC of 14.7%, which we believe is more than enough to capture real estate general risk.
3. Perpetual growth rate of 0%.

This leads us to derive a target price of EUR61.84, rounded to EUR61.8 per share, which implies upside of 43.7% to the market price of EUR43 on 9 January 2020.

EURm	set-18	set-19	set-20	set-21	set-22
Sales	0,00	0,00	121,57	142,96	184,80
Ebit	3,12	0,16	0,09	15,81	24,60
Taxes	-0,73	-0,05	0,05	-3,53	-5,52
Nopat	2,38	0,11	0,14	12,28	19,08
Amortization	0,00	1,00	2,00	3,00	4,00
Change in NWC	-9,96	-15,84	18,10	21,65	8,59
Capex	0,01	0,00	0,00	0,00	0,00
Cash Flow	-7,56	-14,72	20,24	36,93	31,67
Present value	-9,01	-15,06	18,32	29,15	25,40
NPV of cash flows	87,4				
Minorities	0,0				
Fair equity value	158,0				
Wacc	14,7%				
Perpetual growth rate	0,0%				
N° outstanding shares	2,55456				
Target price	61,84				

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