

Company Hepsor AS  
Type Company Release  
Category Management interim statement or quaterly financial report  
Disclosure time 02 Nov 2022 07:30:00 +0200

Attachments:

- Hepsor 3Q\_2022\_interim report.pdf (<http://oam.fi.ee/en/download?id=6867>)
- Hepsor3Q\_2022\_vahearuanne.pdf (<http://oam.fi.ee/en/download?id=6868>)

Currency

Title Hepsor AS: 2022 III quarter and nine months consolidated unaudited interim report

The consolidated sales revenue of Hepsor for the first nine months of 2022 amounted to 5.6 million euros (including 1.7 million euros in Q3 2022) and the net loss was 0.1 million euros (including a net profit of 0.1 million euros in Q3 2022).

The Group's revenues and profitability are directly dependent on the development cycle of projects, which is approximately 24 to 36 months. Sales revenue is only generated at the end of the cycle. Calendar quarters vary in terms of the number of projects ending during the quarter, which is why both profits and sales revenue can differ significantly across quarters. Therefore, performance can be considerably weaker or stronger in some years and quarters than in others. To assess the overall sustainability and economic results of a real estate development company, the portfolio of the company's development projects and three-year average financial results are better criteria for assessing the group's performance.

The sales revenue in the first nine months of this year was generated mainly from the sale of completed residential development projects. As of the end of third quarter, we have sold 39 apartments from completed projects in Latvia, including 20 apartments at 4b Str?lnieku St, 18 apartments at 9 Balozhu St and 1 apartment at 24 ?genskalna St. In the third quarter, we signed real right contracts for all 76 apartments in the Priisle Kodu development project. The Group owns a 25% stake in the Priisle Kodu development company Hepsor N170, and therefore project sales are not reflected in the consolidated sales revenue. The share in the profit from the Priisle Kodu development project will be reflected in the Group's results for the third and fourth quarters of 2022.

Hepsor has four residential development projects in Estonia and Latvia, with a total of 405 new apartments. As of 14 October 2022, contracts under the law of obligations and reservation agreements have been signed for 55 apartments (60%)



in the Mõrpes Džrs development project (92 apartments) near Riga. In the Kuldgas Parks (116 apartments) project in Riga, contracts have been signed for 78 apartments (67%). Both projects will be completed in 2023. In Estonia, we continue with the construction of the Paevälja Hoovimajad development project, which includes two apartment buildings with a total of 96 apartments. As of 14 October 2022, contracts under the law of obligations have been signed for 79 apartments (82%). The first phase of the project with 48 apartments will be completed by the end of this year, and the second phase in Q1 2023. In regard to new development projects, we started the construction of Ojakalda Kodud in the third quarter, where we will build 101 spacious new family apartments.

In addition to residential development projects already under construction and for sale, Hepsor plans to start constructing 218 new apartments in Q4 2022, including Lilleküla Kodud (26 apartments) and 7 Manufaktuuri St (154 apartments) in Tallinn, and Nameja Residence (38 apartments) in Riga.

Of commercial property developments, four projects have been completed or are about to be completed this year in Tallinn and Riga, all of which are fully covered by lease agreements. We built commercial premises on the business property at 1 Priisle St, which is now leased to the Selver supermarket (leased area approx. 1500 sq. m). The real right contract for selling the property is planned to be signed in the fourth quarter of this year. The green office building Grüne Maja is largely in active use, and the last tenants will move to the new premises in Q2 2023 at the latest. At the end of the year, we will hand over the Büro113 commercial building, which is 100% covered by lease agreements, and the anchor tenant will be a modern clinic with an innovative concept. Büro113 is the first building where green solutions (geothermal heating and cooling, rainwater use, energy-efficient architecture, excellent indoor climate, solar energy, etc.) have been applied in a city centre high-rise. In Riga, a stock office type commercial building will be completed at 30 Ulbrokas St in Q4 2022.

In total, the Group has added approximately 156 apartments to its development portfolio in the third quarter, including 40 in Riga and 116 in Tallinn. Approximately 45 new apartments will be built on the 12 Manufaktuuri St property in the Manufaktuuri Quarter together with our long-term cooperation partner Tolaram Grup. The Group plans to start the construction of 26 apartments in the Lilleküla Kodud development project already this year. Up to 45 apartments can be built on the properties purchased at 1a Alvari St and 5 Alvari St. In Latvia, a property was added at Jõrmalas Gatve, where an energy class A three-storey residential building with 40 apartments is planned to be built.

In the spring of 2020, Covid-19 and the subsequent lockdown affected the activity of the real estate market rather briefly, and the number of transactions and market activity recovered in a matter of a few calendar quarters. The impact on the Estonian real estate market of Russia's military invasion of Ukraine, which began on 24 February 2022, has also so far been modest.



Today, it is clear that the war in Europe, the accelerated energy crisis, strong inflation and the rise in interest rates do not allow for an objective assessment of the combined impact of all these factors on Hepsor's home markets and consumer confidence, or a prediction of when the activity of the real estate market might recover.

#### Adjusted Forecasts

The Group's management has decided to change the previously published financial forecasts for the financial years 2022 to 2024.

The main reasons for adjusting the forecasts are the changes in the economic environment (cooling of the real estate market) and the extension of the deadlines for issuing building permits (problems in the national building register, delays due to the work overload of municipal officials).

Changes in the economic environment are manifested in the real estate market as significantly decreased transaction activity and pressure on margins. We forecast that transaction activity in the residential property market will not start to recover until the end of Q2 2023. Whether we will see the recovery of the transaction activity in the residential market in Q3 2023, and what the speed and extent of the recovery will be, depends on how hard the winter heating season affects household budgets (energy prices) and how the situation in Ukraine changes (affecting general consumer confidence).

The basic premise of Hepsor's adjusted forecast is that the transaction activity of the residential property market in both Estonia and Latvia will reach a level similar to late 2021 in the second half of 2024.

At the moment, Hepsor does not predict the pace of the recovery of transaction activity in the commercial property market, but assumes that completed commercial buildings will be rented out and kept on the developer's balance sheet until the market allows them to be sold at attractive price levels.

The financial forecast for the current financial year has changed the most due to the following circumstances.

- \* Hepsor's management decided not to sell any of the three commercial buildings under construction (Bürool13, Grüne Maja, 30 Ulbrokas St). We will only consider selling these commercial buildings if there is an attractive offer. The buildings to be completed are all fully covered by lease contracts, Hepsor considers the quality of the signed leases to be very good, the buildings were built based on a sound future-oriented concept (green houses) and the developer sees no reason to sell the houses in a down market phase. We prefer to earn rental income and sell the houses when the market recovers. This decision will significantly affect the sales and profitability figures for 2022.
- \* Since the transaction activity of the residential market has decreased, we do not expect to sell all the apartments at 4b Strelnieku in Riga by the end



of the year. At the same time, all the unsold apartments in this project are rented and earning rental income. This decision has some impact on the sales and profitability figures for 2022.

- \* The assumption behind the new forecast for 2022 is that real right contracts can be signed for 48 apartments in the Paevälja Hoovimajad project by the end of the year (i.e. 50% of the total sales volume of the project). As most of the real right contracts will be signed in December, it is equally possible that their eventual number will be higher or lower than forecast (79 apartments are covered by contracts under the law of obligations). If real right contracts cannot be signed in December for all the apartments mentioned in the forecast, the sales revenue from these apartments will move forward by a few weeks to January 2023.

The main reason for the adjustment of the forecasts for 2023 and 2024 financial year, in addition to the slowed real estate market, is the fact that the building permit procedure for major development projects has taken significantly longer than previously expected. Since the start of construction has shifted, the completion of the buildings and the generation of related sales income has also move forward in time.

We have conservatively assumed that the recovery of transaction activity in the residential market will not be fast (recovery will take place in the second half of 2024), and this in turn will negatively affect the sales periods of our apartments and also profitability (pressure on margins).

We are conservative in our forecasts, but at the same time we believe that difficult times and changing business cycles can bring new opportunities and interesting purchases to grow the development portfolio.

#### Consolidated statement of financial position

in thousands of euros	30 September 2022	31 December 2021	30 September 2021
Assets			
Current assets			
Cash and cash equivalents	3,110	10,889	1,571
Trade and other receivables	1,596	652	710
Current loan receivables	100	2,388	29
Inventories	67,118	37,237	35,925
Total current assets	71,924	51,166	38,235



Non-current assets			
Property, plant and equipment	230	229	373
Intangible assets	2	0	0
Financial investments	2	402	2
Investments in associates	209	0	0
Non-current loan receivables	1,766	3,408	2,706
Other non-current receivables	167	140	140
Total non-current assets	2,376	4,179	3,221
Total assets	74,300	55,345	41,456
Liabilities and equity			
Current liabilities			
Loans and borrowings	2,445	5,501	4,256
Current lease liabilities	33	123	36
Prepayments from customers	3,497	1,164	1,974
Trade and other payables	3,213	5,539	1,917
Deferred income tax liability	0	0	105
Total current liabilities	9,188	12,327	8,288
Non-current liabilities			
Loans and borrowings	43,322	22,862	22,192
Non-current lease liabilities	66	66	284
Other non-current liabilities	2,692	1,053	1,372
Total non-current liabilities	46,080	23,981	23,848
Total liabilities	55,268	36,308	32,136
Equity			
Share capital	3,855	3,855	6



Share premium	8,917	8,917	3,211
Retained earnings	6,260	6,265	6,103
Total equity	19,032	19,037	9,320
incl. total equity attributable to owners of the parent	18,529	18,904	9,196
incl. non-controlling interest	503	133	124
Total liabilities and equity	74,300	55,345	41,456

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros	9M 2022	9M 2021	Q3 2022	Q3 2021
Revenue	5,622	6,946	1,668	3,072
Cost of sales (-)	-5,100	-5,791	-1,348	-2,501
Gross profit	522	1,155	320	571
Marketing expenses (-)	-279	-177	-106	-77
Administrative expenses (-)	-764	-569	-227	-271
Other operating income	47	56	0	13
Other operating expenses (-)	-45	-49	-6	0
Operating profit (-loss) of the year	-519	416	-19	236
Financial income	849	146	282	71
Financial expenses (-)	-454	-319	-142	-127
Profit before tax	-124	243	121	180
Current income tax	-5	-16	0	0
Deferred income tax	0	-45	8	-32



Net profit for the year	-129	182	129	148
Attributable to owners of the parent	-141	-175	132	-91
Non-controlling interest	12	357	-3	239
Other comprehensive income (-loss)				
Changes related to change of ownership	135	70	0	70
Change in value of embedded derivatives with minority shareholders	18	-426	31	-395
Other comprehensive income (-loss) for the period	153	-356	31	-325
Attributable to owners of the parent	-234	68	52	68
Non-controlling interest	387	-424	-21	-393
Comprehensive income (-loss) for the period	24	-174	160	-177
Attributable to owners of the parent	-375	-107	184	-23
Non-controlling interest	399	-67	-24	-154
Earnings per share				
Basic (euros per share)	-0.07	-0.05	-0.04	-0.02
Diluted (euros per share)	-0.07	-0.05	-0.04	-0.02

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Hepsor AS ([www.hepsor.ee/en/](http://www.hepsor.ee/en/)  
([https://www.globenewswire.com/Tracker?data=kVMsfzqGIWi00w5P6lGIHJmaUcchnpxcbc6kwNBh02e\\_jl\\_qjtsy-WWzC-rzfIjprv8vaY-LHTBgs2cf4mPwkutNqkQlt8K\\_sCAu89HV9s=](https://www.globenewswire.com/Tracker?data=kVMsfzqGIWi00w5P6lGIHJmaUcchnpxcbc6kwNBh02e_jl_qjtsy-WWzC-rzfIjprv8vaY-LHTBgs2cf4mPwkutNqkQlt8K_sCAu89HV9s=)))) is one of the fastest growing residential and commercial real estate developers in Estonia and Latvia. Over the last eleven years Hepsor has developed more than



1,400 homes and 24,000 m(2) of commercial space. Hepsor has been the first real estate developer in the Baltic States to implement a number of innovative engineering solutions that make the buildings we construct more energy-efficient and thus more environmentally friendly. The company's portfolio is comprised of 27 development projects with a total sellable space of 180,000 m(2).

