Corporation:	Kojamo
Title:	Kojamo Q2
Speakers:	Jani Nieminen, CEO Erik Hjelt, CFO
Date:	20.8.2020.
Duration:	00:46:03

PRESENTATION

Maija Hongas

Good morning ladies and gentlemen and welcome to Kojamo's half year report news conference. My name is Maija Hongas and I'm manager of Investor Relations here at Kojamo and I'm very pleased to see you all here after these very weird circumstances that has been on for a while now.

Today's presenters will be familiar faces: CEO, Jani Nieminen, and CFO, Erik Hjelt, and after the presentation, we have some time for questions. First, we will be taking questions here from the conference room and after that from the conference call line, but without further delay, please Jani, the stage is yours.

Jani Nieminen

Hello everybody, nice to see you, here in the conference room as well. I think the story is of course to pinpoint the cover page and the one building in the middle is Lumo One tower under construction at the moment on top of Redi shopping centre.

Then if we move forward towards the agenda, I would say that today we are presenting a solid H1 report and in a big picture if we wanted to highlight some aspects, I would say that all our essential operations have been running. All construction projects have been proceeding as planned. We have strong progress in development projects. Financially, we are strong and in a good position. COVID-19 has had a limited impact for us. And on the other hand, we see that urbanisation will continue creating demand and we are well in line with our strategy.

As I mentioned, the impact of COVID-19 has been limited. Of course, one aspect is that there has been temporarily more supply in the market. We knew that a lot of new apartments will be completed in Finland during H1 because of the high volumes of construction work, but on the other hand these special circumstances created a situation that, for example, most of the so-called Airbnb apartments were converted to long term rental use. And at the same time, because of these circumstances, for example students went back to their homes, either to their parents here in Finland and/or back to their home countries. So, that created temporarily a bit of unusual situation.

So, we've been operating in a more challenging period of time. And on the other hand, now it seems that the situation here in Finland is relatively good. But on the other hand, of course, the anticipation of the so-called second wave has begun.

Finland's GDP has significantly decreased, but on the other hand compared to many other countries, it seems that the situation here in Finland is better. Of course, we have to keep in mind that Finland is a small export-driven country and the second wave of pandemic to Finland's export markets would hurt our economy.

On the other hand, here in the property market, I would say that impacts of the pandemic are expected to be temporary and urbanisation will continue. According to the latest estimates and forecasts published in June this year, urbanisation will continue and the housing need by 2040 is 700,000 apartments here in Finland. And of course, Helsinki region will be growing most and there will be the biggest need for new apartments.

In the operating environment we already during last year saw that the construction volumes will be slowing down and the number of new building permits granted will decrease and what's been happening this year, of course, combined with COVID-19, is that residential start-ups seems to be going down rapidly and now they estimated that only 28,000 apartments will be started this year.

So, the volume of new completed apartments in the market will go down during the next couple of years, 2021-2022. And there we have to keep in mind at the same time that due to the urbanisation, the need is to complete 35,000 apartments here in Finland to the biggest cities on average annually. So, Finland seems to be heading for a period of time where there is less supply in the market against a growing need because of the urbanisation.

Construction costs. The increase there seems to have levelled off. We were able to find really good opportunities during Q2 to buy new development projects from construction companies. Now what's happening in the housing market, it seems that the estimates concerning rent increases are still valid. On the other hand, it seems quite difficult at the moment to estimate what's going to happen with the housing trade.

During the pandemic, there was a severe slow down after the summer vacation. It seems that people are buying houses a bit more, but on the other hand, typically this kind of uncertainty creates more demand towards the rental market and people are less attracted to buy homes. Of course, as the forecast says, urbanisation will continue and by far the biggest need for new homes is in Helsinki region.

So, it's good to keep in mind that still the same big drivers are creating a lot of demand for new apartments in the biggest cities. Urbanisation and development of household sizes is actually according to the latest forecast, the development of household sizes shows the number of one and two person households is still growing and that creates actually more demand to create new homes than the population growth.

At the same time, we have seen that people are increasingly attracted by the freedom provided by rental homes and the services we are able to arrange in rental homes. As I have been pointing out prior, it's good to notice that even typically people tend to think that Finland is a country with owner-occupied apartments. Here in Helsinki, more households are living in rental apartments today than in owner-occupied homes. And at the same time, close to half of the households in Turku and Tampere are today living in rental apartments and the number of households living in rental apartments has been increasing annually.

Occupancy is still on a good level even though, of course temporarily, the operating environment has been more challenging. For example, here in Helsinki region, as I said, a lot of new apartments have been completed during H1. At the same time, more supply came from so called Airbnb apartments and the students went to their parents. So, it is not in the typical situation, but it seems that the impact is temporary. And to give some colour on that issue, for example, here in Kojamo, we have been making more new rental agreements every month since April, and July was the highest number of new rental agreements this year.

And if we take a look at the fair value of the housing portfolio, it's good to keep in mind that we've been focusing to the biggest cities and city areas here in Finland. 73.4% of the housing assets are located in Helsinki region and if we combine Helsinki, Tampere and Turku regions, more than 87% of our housing assets are today located in these areas.

The numbers show that it's been a really solid H1, providing profitable growth and the net rental income increased more than total revenue. The like-for-like growth of the rents was 2.4%. But the revenue grew with 3.2% and at the same time the net rental income increased by 6.2%.

The funds from operations, 71.5 million, the increase there was 7.6%. Fair value of the investment properties today, 6.5 billion euros. Of course, we have to keep in mind there that during Q4 last year, we made a valuation methodology change and the impact there was roughly 800 million euros.

Gross investments during H1 was 179 million euros and there by far the biggest portion was new development projects and investment there, 156.5 million euros. Profit excluding changes in value, 77 million euros was 6.6% above the corresponding period and then we received a 48 million net gain in fair value compared to last year, 72.3 million euros and ended up profit before taxes, 125.2 million euros.

As I said, we were able to make quite good agreements concerning new development projects during H1 and at the end of H1 we had 2,380 apartments under construction, all located here in Helsinki region. We completed 201 apartments and it's good to keep in mind that as we have a really high number of apartments under construction we kept ourselves busy during Q2 and started 811 apartments. So, we do have a really strong pipeline, and a solid base for our growth strategy.

A record high number of projects under construction, combined with co-operation agreements providing more than 1,200 apartments, combined with so-called Metropolia properties where we have the zoning process ongoing and expected to be completed by 2020. So, a lot of new apartments are needed here in Helsinki region and Kojamo by far at the moment is the biggest player providing new homes and helping the urbanisation.

We have all our properties along with public transportation with good micro-locations and, of course, the strong pipeline will come visible as growth starting by 2021, as the number of new completions will severely grow, and next year we are completing more than 1,200 apartments, and then 2022 more than 1,800 apartments will be completed. And of course, every day we still keep on working in order to try to find some new good projects.

Digitalisation has always been an important topic for Kojamo. And today, Kojamo is a front runner, thanks to online selling and My Lumo mobile services. At the same time, we do believe that there are still a lot of opportunities available in using technology and digital solutions. The digital roadmap will focus on creating even better customer experience, operative excellence, and efficient use of data and AI. So, during the next years, we will be providing new solutions as well. We are not stopping with online selling and My Lumo services.

Today, of course, we are already providing a high quality customer experience and a lot of services and easy access with online selling. A lot of services for a customer end in Lumo world. On the other hand, we are providing a lot of services and taking good care of our existing tenants with a lot of, and a wide scale of, different services. A daily operation is to use MyLumo application where you are able to take care of all your problems, ordering services. And it's good to keep in mind that web store is not a pilot project. We are at the moment getting half of all new customers from the online selling.

So, at H1 over 18,000 new agreements there, today more than 19,000. We are on the level where we are able to do so-called A and B testing, a lot of new features in online selling, and that's one aspect that will even be growing in the future.

Sustainability has been a really important issue for us as well. It's part of our company's DNA. Now we have conducted a materiality analysis of sustainability, and we will publish our sustainability report later this year. At the same time during the summer, we participated GRESB for the first time. And as you see on the right hand side, we have been quite successful in proceeding with our energy-saving targets.

At this point, I would pass the microphone and topics to our CFO, Erik. Please, Erik.

Erik Hjelt

Thank you, Jani and again, good morning everybody from my side as well, and it's great to see people here even in the conference room this time. Page 17. If we start to look at the financial figures, total revenue growth was 3.2% and revenue growth was 5.9 million euros. Completed apartments contributed 3.3 million euros for the growth acquisitions, 0.2, 0.5 million euros disposal was a negative figure, of course, there. 2 million euros and then rent increases, 4.1 million euros. The like for like growth of 2.4%.

If you then look the profit from change in fair value of investment properties, 48.2 million euros. Two thirds of that was contributed by the ending restrictions and twenty per cent for development gain and we book modernisation investments, money spent there as a negative figure in changes of fair value of investment properties, that was 10.7 million euro.

At the end of H1, we kept all major parameters. Biggest one being the yield requirement is unchanged given the fact that in the market there hasn't been any transactions and we discussed a lot with the brokers and JLL, and they said that now it's not the right time to change these requirements and we want to see transactions and hopefully at the second part of this year, we'll see some, and then of course we can we can look at the yield requirements again, but we estimate that the yield requirements will be flat given that the lack of acquisitions in the market.

Net rental income, the growth there was 6.1, so stronger growth than the top line growth. The growth was 7.2 million euros. Total revenue contributed 5.9 million euros. Maintenance was 1.5 million euros lower than in corresponding periods, with any thanks to the mild winter during the first quarter and repairs was 0.2 million euros higher than in the corresponding period. Net rental income margin what we booked was 65.6, but it's good to keep in mind that we booked all property taxes in Q1, so if we adjust the NOI margin with the property taxes allocated for the second half of this year, so the margin is above 68%.

FFO grew 5.1 million euros, and net rental income contributed 7.2 million euros. SGA expenses, quite flat, so 0.3 million euros, bigger than in corresponding periods. Financial expenses, 1.5 million euros more, given the fact that the loan portfolio was much bigger than in the corresponding period. And cash taxes, 0.7 million euros higher than in corresponding period.

Occupancy rate stood on a quite good level, despite the COVID-19, as Jani already described. Page 20, the gross investments 179 million euros. Little more than 166 million euros spent for development investments. Modernisation investments and expenses, 10.7 million euros, and capitalised interest, 1.5 million euros.

During H1 there are no acquisitions actually. We participate a bidding competition before the summer break. We were on the second round but to the asking price went so high as we are not willing to pay that price and we dropped out from that bidding competition. The transaction hasn't been finalised yet, so we don't know what the final outcome is going to be, but we were not ready to pay that price.

Modernisation investments, and repairs moved sideways compared to the corresponding period. We estimate going forward that modernisation investments and repairs put together is going to be somewhere between 60 and 70 million euros per year and 2020 we estimate to be on the lower end of that range.

The value of investment properties, 6.5 billion euros and, as Jani mentioned, at the end of last year we changed the valuation technique that contributed roughly 800 million euros positive impact for the value of the properties. The change of the properties to value properties this year has been positive as well. And we still have at the end of H1 2,633 apartments where we still have restrictions regarding the valuation of those properties, and those restrictions will gradually end by the end of 2024, and the uplift in the value on average is going to be 80 million euros per apartment. So, that's a little more than 200 million euros altogether, and 15% of that will come through this year, 30% in 2024 and the rest is spread evenly for the other years.

At the end of H1, we had 426 so-called VVO apartments where we still have restrictions regarding the rents and then those restrictions will end by the end of this year.

Page 22. Our strong pipeline now looking from the euro point of view if you like. So, apartments under construction. Almost 2,400 apartments, more than 280 million euros already spent in those. Ongoing developments, a little more than 300 million euros to be spent to complete those apartments. Then we have binding agreements, mainly co-operation agreements with SRV and Hausia, providing us 1,252 apartments and a little less than 270 million euros to be invested in those apartments.

And then our land bank, right hand side column where you have pure land, we are able to build more than one thousand apartments on that, we have plots where we have existing buildings and the idea is to demolish the existing building and build a new one, round 700 apartments to be built there. And then these conversions, biggest one being the Metropolia case more than 1,000 apartments.

All these plots and real estate developments are located in Helsinki region and we estimate the whole year development investments are going to be somewhere between 320 and 370 million euros and we end up with this 320 million euros total figure for this year if we just make these investments that are already ongoing, but the idea is to start a couple new ones and if we'll be able to proceed according to our plans is how we will end up at this higher end of that range.

So far, we've been able to book on average twenty per cent development gained when we are completing these development projects and we estimate that on average the development gain per cent is going to be the same in all these projects that we currently have ongoing and in these cooperation agreements. And on top of that, the net initial yield in all these projects on average has been fourish or above that.

So, if you look there, the future growth, that means that we are able to grow for both for the value of the properties and the top line as well. So, that gives very, very strong growth for us going forward.

Equity ratio page 23 and loan to value, we have set targets for loan to value to be below 50%, equity ratio to be above 40%, and we are well in line with these targets and we have a quite nice buffer actually against these target levels. So, we are able to grow without asking any new equity.

EPRA NAV 15.62. At the end of this year, EPRA changed they guidelines for EPRA NAV and we are going to adopt that at the year-end figures. This is the old one, if you like, EPRA NAV. The growth there was strong as well.

Page 25. Our liquidity is on a good level. With tapped the Eurobond market in May and now, of course our liquidity's on an unusual high level given the cash and cash equivalents, liquid final assets and unused credit facilities as well, but we decided to tap the market because we felt that it's better to make these financial agreements earlier rather than later, given the strong development pipeline what we have and the uncertainties in the market. And that Eurobond was very successful. Seven years maturity, three or four times oversubscribed, carrying a coupon of 1.875.

Page 26, versatile capital structure. Now, the portion of bond financing is 54% and going forward, we expect that portion to grow even more. We want to have bank financing in place as well and given the growth of the company and of course the euro-wise even the bank financing can grow going forward as well. Hedging ratio at the end of H1 is 87%. Average interest rate, down 1.7%. The coupon was slightly higher than on average in our portfolios but we paid back 100 million euros bond where the coupon was much higher, and we paid back a couple of smaller bank loans where the margin was even higher than in these existing loans. And the average interest rate period is healthy, close to 5 years.

Page 27, strategic targets for 2023, a couple notes there. One is that the average growth per year in strategy between 4 and 5% going forward, we estimate in the mid-term that the like for like growth is going to be somewhere between 2.1 and 2.5%. And if you then add this ongoing development when completed they of course start to generate positive cash flow and that will contribute very strongly for this top line growth.

And FFO against total revenue well in line with our target, but again there is an impact for the fact that the property taxes was booked for the whole year in Q1. So, if we allocate half of the property taxes for the first half this ratio is round 40%

Outlook, top line outlook slightly specified as discussed earlier, we participated in that bidding competition for acquisitions and decided not to acquire that portfolio and we will of course look at the market for. But given the fact that more than half of the year has already passed us, and even if we manage to acquire something that the impact for the top line is going to be quite limited for part of this year, and that's why we slightly revised the top line guidance and we repeat our FFO guidance, so no changes there.

We estimate the impact of COVID-19 for the outlooks, and I think the main takeaway here is that that we expect the operations will continue undisturbed for the most part and so, we estimate no specific changes there having impact for our outlook.

And now back to Jani.

Jani Nieminen

Dividend policy on page 31 no changes there. Our objective is to be a stable dividend payer and annual dividend payment will be at least 60% of the FFO provided that equity ratio is 40% or more, taking account of the company's financial position, and of the equity ratio and financial position seems to be strong at the moment.

To summarise what's been happening, I would say that it's quite obvious that we have been having a really solid H1 with profitable growth and in our strategy, it's important to understand that we are able to grow from various sources. We are combining growth from new development projects. We are able to buy portfolios, if we find a matching portfolio to our portfolio and the pricing is right. Then we are able to convert buildings into apartments, like the Metropolia case.

We have been having a strong progress in property development. The pipeline is record high. And we are well in line with the strategy and in a good position to continue our operations.

Thank you. At this point I would pass it to Maija.

Maija Hongas

Thank you very much, and Erik, please, would you join us to the stage? So, now we can have some questions and we will start here from the conference room.

Q&A

Anssi Kiviniemi

Hi, Anssi Kiviniemi from SEB. Thanks for the stick and for letting ask questions. New rental contracts, you highlighted that July was a record for this year. What about year over year comparison? Because I would assume that July is a strong month altogether. So, how is that? And also, in Q2 occupancy ratio, that was quite low, so do you expect it to be the lowest point this year? Or do you expect it to be kind of in a similar level going forward?

Jani Nieminen

Typically, it's good, of course, is to understand that the more new agreements we do, the better the occupancy typically gets. It may take a period of time before they are valid. So, the lowest point is probably over because we've been doing more and more new agreements all the time, and not to provide exact figure, but July this year was really good compared to many years.

Anssi Kiviniemi

Yeah, the second question is basically on the pipeline. Sorry if I missed it, but how much of the overall pipeline commitments and units under construction are in the capital region, in Helsinki region, and what's the situation in Metropolia development projects? And could you give us some kind of indications on how many apartments will there be roughly altogether just to figure out what's the potential of the project?

Jani Nieminen

If I recall right, of course it is today that all the projects under construction are located here in Helsinki region and actually say that the whole pipeline is located here in Helsinki region. The Metropolia case, it's an ongoing zoning process. We expect it to be ready this year. Of course, it's not entirely in our hands, but we expect and hope that it should be totally ready this year. And the expectation there is 1,000 new apartment here in Helsinki region.

Markku Moilanen

Yes, hi, Markku Moilanen from OP Bank. How much would you say that this COVID-19, i.e. work related immigration and students moving back to home affected your rental income in Q2?

Jani Nieminen

I would say it's not easy to provide an exact figure. We are sure that it had an impact, because temporarily the market has been challenging and totally different. And of course, there's a combination that people were not able to continue urbanisation, to move from other cities to Helsinki. On the other hand, students leaving the apartment, rental apartments and of course at the end of the day, even though we've been quite successful running business from home offices, it's not entirely the same process.

Markku Moilanen

A second question. You highlighted the supply of rental apartments have grown in Q2. Mainly because of like these Airbnb apartments coming to the market. Has that affected rent level of new lease agreements?

Jani Nieminen

Not here in Helsinki region, no.

Markku Moilanen

Thanks, that's all from me.

Maija Hongas

Okay, then we can move on to the questions from the conference call line, so please operator.

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. There will be a brief pause while questions are being registered. Our first question is from Svante Krogfors from Nordea. You may begin your question, sir.

Svante Krokfors

Yes, good morning and thank you for taking my questions. So, the first question is regarding the like for like in Q2 identifying specifically mentioning of that, but 2.4 in H1 and 2.6 in Q2, so is it fair to presume it was a bit lower, 2.2.

Erik Hjelt

It was a bit lower. Yeah, yeah. You're right, yeah. The 2.4 is for H1 this year.

Svante Krokfors

You don't see any impact from the increased supply of Airbnb on like for like going forward.

Erik Hjelt

How we see the market is that those apartments that were converted for short term lease to a longer term lease are Airbnb apartments that has already happened.

Svante Krokfors

Okay, that's clear. Then, regarding the valuation changes and the EPRA yield that you disclosed, April yield went down from 4.29 to 4.22, roughly. Has that more to do with the timing of vacancies and so on?

Erik Hjelt

It's pretty much the timing of the vacancy, so if you if you look the figures for passing rent so there's a slight change there, so no material changes actually.

Svante Krokfors

Okay, then I think it's good that you told about the development gains that you have had on your new developments, those appear to be quite encouraging. And you said that yield of 4% or more. So, then we should- it's easy to calculate that we get into the 3 to 3.5 valuation yield range. Is that correct to expect that? I guess that is what you have guided also, that transactions have been made on new apartments in the capital region.

Erik Hjelt

Well, if you just look and use your Excel so 4% of net initial yield and twenty per cent development gain gives you 3.2. So, in the ballpark figures, I think you are right.

Svante Krogfors

Okay, that's good. Then perhaps there was a review, Asumismenot 2020 published I think yesterday and there, they also suggested that people postpone buying apartments and moved more to rent it. Have you looked at that then? Do you agree with the conclusions there?

Jani Nieminen

We've been providing views that people are increasingly interested in rental apartments for a period of time already, so I guess it's the other way around. They are backing our story.

Svante Krokfors

Okay, fair enough. Okay, thank you very much for taking my questions.

Operator

Thank you. Next we have Celine Huynh from Barclays. You may begin your question.

Celine Huynh

Hi, good morning, I just had two questions. The first one is about the guidance. What are the reasons behind the lower higher range for your total revenue increased guidance? And the second question would be on the pipeline, can you confirm because we might have heard it wrong, but do you expect to profit on cost from the development pipeline to be around twenty per cent going forward? Thank you.

Erik Hjelt

Twenty per cent development gains also it's against the cost, correct there. And the reason as mentioned to slightly specify the top line guidance was that even if we manage to acquire a sizeable portfolio this year that the impact for the top line this year is limited given the fact that half of it has already passed, so that was the reason why we slightly specified the top line guidance.

Operator

Thank you. Next question we have Neil Green from JP Morgan. You may begin your question, sir.

Neil Green

Hi, good morning. Thank you for the presentation. Just one question on the balance sheet. I could see the average cost of debt of 1.7. There's not a huge amount of debt coming up for refinancing in the next few years, but I was wondering where your kind of marginal cost of debt is today, please. And if you see any opportunity to bring that 1.7% down over the coming years as well.

Erik Hjelt

So, the coupon in the latest euro bond was 1.875. And the spread has come in after that. So, that's how the market at the moment seems.

Operator

Thank you, there are no further question at this time. Please go ahead, speakers.

Maija Hongas

Thank you very much. We had from the chat function only one question, but that covered Metropolia project that we already discussed, so thank you very much for all of you participating. If you may switch the next slide, thank you. We're going to publish our interim report for Q3 on the 5th of November. And earlier we mentioned that we are planning to have a capital markets day this September, but unfortunately due to the circumstances we have decided to postpone that until next spring. I hope the weather is nice then and we will be able to see our properties and hope the situation is much better then. But instead we are going to arrange investors day in a virtual format, 2nd of December. We'll be sending the save the date soon, so let's see you there. Thank you very much.

Jani Nieminen

Thank you.

Operator

This now concludes our conference call. Thank you for attending. You may not disconnect your line.