Corporation:	Kojamo
Title:	Kojamo Q3 Results
Speakers:	Jani Nieminen, CEO Erik Hjelt, CFO
Date:	5.11.2020.
Duration:	00:44:00

PRESENTATION

Maija Hongas

Good morning, ladies and gentlemen, and welcome to Kojamo's Q3 results webcast. Today's presenters will be Jani Nieminen, CEO, and Erik Hjelt, CFO. And my name is Maija Hongas and I'm Manager, Investor Relations, here at Kojamo.

After today's presentation we will have some time for questions and first we will be taking questions from the conference call line and after that from the chat. But let's get started. Please, Jani.

Jani Nieminen

Thank you, Maija, and good morning from my side as well. And welcome to get some colour on what's been going on this year. In the big picture I would put it in a few words, in such a manner that the impact of Covid-19 has been limited and in Finland the situation is relatively good compared to many other countries. All our essential operations have been running in a normal manner and the construction projects are proceeding as planned.

According to the estimates, urbanisation will continue and that creates demand for new homes in the biggest cities. We have a really strong pipeline and we are well in line with our growth strategy.

Moving forward to the operating environment, of course the Covid-19 pandemic has contracted the Finnish economy but I would say less than in most European economies. Of course, Finland is a small, export-driven country and difficulties in other European countries and other countries as well would have an impact towards the Finnish export economy.

On the housing market it seems that the impact of Covid-19 will be temporary and urbanisation will continue as I provided the information. So, actually what it means is that the population growth forecast in the biggest cities creates a demand for new homes, annually roughly 35,000 apartments should be completed in the biggest cities on an annual basis.

We've seen that during the last couple of years the number of new building permits has been declining and it seems that the Covid-19 pandemic has accelerated that phenomenon. So, according to the latest estimates only 28,000 apartments will be started here in Finland this year. And on the other hand, if we keep in mind that urbanisation creates a lot of demand it seems that even though this year there has been temporarily a lot of supply in the market because of a lot of completed new projects has been there. On the other hand, 2021/2022 there will be less completed apartments and it seems that the supply will not meet the annual demand for the urbanisation and the demand there.

We see that some of the construction companies are facing challenges in order to get financing for owner-occupied projects, so even if the market has been challenging, there will be demand, long-term demand. There are at the moment no new estimates concerning the housing prices or rent, but on the other hand, I see that these existing estimates seem still to be valid. So, positive increases both on rent and housing prices in the biggest cities, especially in the Helsinki region.

Of course, as I said, we see that urbanisation will continue as we combine urbanisation and the development of household sizing actually meaning the growing number of one- and two-person households. That is the main driver creating demand for new homes in the bigger cities, and today we have the official data showing that already in Helsinki, Tampere and Turku more households live in rental apartments actually than in owner-occupied homes. That's a global phenomenon; rental homes are popular in bigger cities. On the other hand, of course, people seem to value the high-quality micro-location along with the public transportation and there have been changes in people's preferences; customers are choosing rental apartments because of the freedom. They don't want to tie themselves with owner-occupied homes and housing loans and they are choosing rental apartments along with public transportation and good services.

Of course, the pandemic had an impact towards the owner-occupied housing market but it seems that after the summer holidays there have been some positive signs and housing trade has picked up a bit of speed, but on the other hand we see that in the market there is a bit less homes for sale. Typically, it seems that as the consumer confidence goes down, and the uncertainty increases, people tend to postpone decision-making buying homes and they tend to increase their activities towards rental homes.

In the big picture of course, on the lower right-hand side, we notice that Helsinki, Turku and Tampere, as I said, more households in rental apartments today than in owner-occupied homes. On the other hand, the portion of households living in rental apartments has been growing in all the biggest cities; so, in all the focus areas where our company is operating.

Most of the households living in rental apartments in Helsinki, Turku and Tampere region, our main focus areas, today more than 73% of the housing assets located in Helsinki region and if we combine Helsinki region, Turku and Tampere regions, more than 87% today of our assets are located in these three main growth areas.

Of course, we saw that during Covid-19 especially during H1 there was more supply in the market and less demand. We knew already that a lot of construction projects will be completed to the market this year; we saw that during H1, for example here in the Helsinki region quite many apartments used for, for example, Airbnb business were converted to longer rental business by individuals and so actually what it means is that the impact was the biggest here in Helsinki region towards the occupancy and the supply.

On the other hand, we’ve seen that already starting from July we had a really high number of new tenant agreements and we’ve been on a really good level both August and September and October. So, I would say that towards the occupancy the biggest hit was during May and July, and now as those new tenant agreements are becoming to provide money as people are moving in, that has a positive impact towards the occupancy.

Here are the key figures and still a really solid year providing profitable growth. If we first take a look at the total revenue, of course the closest combination of new completed apartments and like-for-like growth. Like-for-like growth at the end of Q3 was 1.7% and inside there it’s good to note that if we combine the positive impact of rents and water charges, that’s 2.4%. So, actually, the occupancy impact was -0.7%.

Both the rental income and FFO was increasing more than total revenue. So, a really solid profitable growth. We've been able to operate quite cost efficient. Of course, we have the benefit of mild weather last winter but overall, in the big picture our people are doing extremely good work.

We have a good amount of gross investments – €264 million. There of course, the biggest portion is new development projects – a bit more than €229 million. Acquisitions, roughly €8 million and then modernisation investments €27 million.

Profit, excluding changes in fair values, €124 million – 3% better than last year. And then we received a net gain in fair values of €74.1 million, providing profit before taxes, €198 million.

We have a growth strategy, and at the moment we do have a record high number of new apartments under construction. This year we have already completed 340 apartments, we have started the construction of more than 1,500 apartments, and at the end of Q3 we had a bit more than 2,500 apartments under construction, all here in the Helsinki region. And I would note that, of course after Q3 we already provided information of starting two projects here in Helsinki region, providing additional 234 apartments; and these two projects are outside our binding agreements with construction companies.

So, a really solid, strong project pipeline. For us it's really important that we are able to grow using multiple sources. So, we are creating projects based on our own land bank. We are buying new development projects from construction companies. In those cases, we are buying both the land and the projects form the construction companies. Then we have the capability of converting premises into apartments like the Metropolia case and then of course, if we find suitable acquisition targets, we are able and ready to move fast.

At the moment, as I mentioned, all construction projects located in Helsinki region, all the Metropolia properties, the zoning process is proceeding, located in city centre, Helsinki, I would say really high-quality, micro-locations and of course, we are quite happy with these investments, providing a net initial yield of 4 or above 4%.

It's good to know that the amount of new completed apartments will be growing starting next year, providing more than 1,300 completed apartments and that, of course, will be visible in our growth.

Here in Kojamo we believe that Lumo is providing special customer experience, providing easy and effortless living and a lot of different services. The internet business – I mean online selling

– has still been growing; roughly half of the new customers are coming from online store. Good to know that at the same time we have been combining so-called old web store and so called lumo.fi pages. Now customers really have easy access and as we combine these two new features, it's seems we've been able to increase the number of tenant agreements done by our own people as well. Next month we will have our first investor day and we will provide more colour on our digital road map.

This year we've been also working and putting a lot of effort in creating our sustainability programme and that will be published December the 2nd and of course, we are really pleased that EPRA recognised both our financial statements and sustainability report.

At this point I would ask Erik to continue and provide more detailed information. Thank you.

Erik Hjelt

Thank you, Jani, and good morning everybody from my side as well. Page 15, the total revenue growth was 2.3% and in euro-wisew €6.5 million and like-for-like growth 1.7% contributed approximately €4.5 million for the growth and as Jani mentioned, the impact of rent increases and water charges was positive for like-for-like growth, 2.4%, and occupancy rate -0.7%. And the remaining part of the growth €2 million came as a net of completed apartments, disposals and acquisitions.

We saw a €74.1 million profit on fair value investment properties and two thirds of that came through thanks to the ending of restrictions of apartments, and one third generated by the development gains, so we are well on track, providing approximately 20% development gain when completing these ongoing developments.

The profit before taxes, excluding value changes, grew €3.1 million; net rental income contributed €6.6 million SG&A expenses slightly above from the corresponding period at €0.7 million and finals expenses €2.3 million more than in corresponding period, given the fact that the loan portfolio was much higher than in corresponding period.

Page 16. Net rental income growth 3.5%, €6.6 million, total revenue growth was €6.5 million, maintenance expenses €0.9 million less than in corresponding period, and repairs €0.8 million, higher level than in corresponding period.

Maintenance expenses. There was actually two different things behind those figures. One was, as Jani mentioned, the mild weather in the beginning of this year, that contributed the €2 million savings in the maintenance expenses and what we've seen during the Covid-19 is that people are spending actually more time at home, remote working and such. So, water expenses were €0.8 million higher than in corresponding period and cleaning was €0.7 million higher. Repairs were slightly higher than in corresponding period, given the fact that when Covid-19 eased somewhat, we started some additional repair projects. NRI margin was, in Q3, 71.5 and year-to-date 67.6%.

And FFO, healthy growth, 7%, €7.4 million. Net rental income contributed €6.6 million, SG&A expenses on negative side -€0.7 million. Financials altogether €3.5 million and cash taxes savings actually €3.7 million, given the fact that during this year we haven't made any major disposal and in the corresponding periods there was quite sizable disposal leading to that paid taxes slightly levered in corresponding period. And other operating income expenses contributed €1.4 million for the FFO.

Page 17, financial occupancy rate flat compared to H1, and as Jani explained, now we have been able to make more lease agreements and they are coming into force in slight delay. So, the occupancy rate is slightly improving given the higher amount of new lease agreements. Tenant turnover was slightly elevated, most likely given the fact that people are slightly moving more given the Covid-19.

Page 18. Gross investments, €264 million, mainly development investments, €236.2 million, acquisitions €7.7 million and modernisation investments, €20.1 million. Modernisation investment and repairs put together, €0.7 million less than in the corresponding period, repairs €0.8 million higher and modernisation investments €1.5 million less than in the corresponding period.

Going forward, we expect modernisation investments and repairs put together will be between €60–70 million and this year we are heading in the midpoint, close to midpoint of that range.

Page 19, fair value investment properties, €6.6 billion. Main contributors there, developments and acquisitions as well as profit on fair value on investment properties. At the end of Q3, we still had 2,529 apartments where we have restrictions regarding valuation and those restrictions will end gradually by the end of 2024, and that will provide us somewhere between €180–200 million – a value uplift; 40% of that will come through in 2024 with the more than 10% remaining part of this year and other is split quite evenly for years 2021/'22/'23. We had only 326 apartments at the end of Q3 where we have restrictions regarding rents and those restrictions will end by the end of this year.

During this year we actually have participated two processes to acquire mid-size portfolios; one before the summer break and we concluded that we are not willing to pay the price that was finally asked and we dropped out from that process. Funny enough that transaction hasn't been closed yet, so we don't know the exact outcome. And lately we actually participated in another one, a mid-size portfolio transaction and just recently we decided to drop out there as well, given the fact that the indications are that the transaction will be finalised in mid-three yield and we were not ready to pay those prices. So, most likely we are not able to make property transactions this year that will have an impact on the top line this year, given that these couple of transactions the prices were so high that we were not ready to pay those prices.

Page 20. On the left-hand side column, 2,532 apartments are covering, where we already invested €326 million and to complete those developments with less than €300 million to be invested. One thousand and sixty-two apartments where we have binding agreements with construction companies and there we have fixed-price agreements and that will take more than €233 million to build those apartments.

And on the right-hand side our land bank, if you like, so there we have pure land. There we have some plots where we have existing residential building that will be demolished and build a new one and then this Metropolia case, as Jani mentioned. All of these plots and real estate reserves are located in the Helsinki region and we estimated that €320–€350 million investments this year.

Loan to Value on page 21 and Equity Ratio well in line with our targets. Page 22, equity per share and especially EPRA NAV per share improved nicely, growth from the corresponding period, more than 30% and we are now trading roughly with a 13% premium against EPRA NAV.

Page 23. We have quite strong financial key figures. Average interest rate, including the cost of derivatives, 1.8% and hedging ratio, plus 89 at the end of Q3, average interest rate fixed period and average loan maturity close to five years and total loan portfolio a little more than €3 billion, 55% of those are bonds and outstanding commercial papers €50 million. And we were quite cash rich so we wanted to make, given the strong development pipelines, so we wanted to tap Eurobond market before the summer break. And we still have money left from that transaction, if you like. So almost €500 million cash and financial assets. And on top of that we have €300 million committed, unused credit lines in place.

Page 24, strategic KPIs. Annual growth, year-to-date 2.3, where we have a strategic target to be between 4% and 5%. And the like-for-like growth here this year 1.7, as Jani mentioned. In the short term, we expect the rent increases to be above, and water charges increases to be above

2%. But given the fact how like-for-like calculation is made, of course, the occupancy rate will have a negative impact in the short term there. But in mid to long term we expect the like-for-like growth to be between 2.1% and 2.5% and then we take into account the ongoing developments, especially those that will be complete in 2021 – almost 400 apartments. And they will of course contribute to revenue growth and we will take our revenue growth on or above the strategic target what we have here on page 24.

Annual investments nicely in line with the target already, FFO to total revenue of 39.6, well above our strategic target of 36. And Loan to Value and Equity ratio in line with our target and Net Promoter Score a strong 36%.

Page 26; our outlook. So we are one of the few companies that actually have kept giving an outlook during this whole Covid-19 period and we still are doing that and we kept our outlook unchanged and it's good to note of course that this outlook means that our total revenue will increase and that's quite rare in these times as well, so we are very proud that we are able to increase our top line and keep our outlook unchanged.

Given the fact that it's unlikely that we are able to find a portfolio to be acquired that will have an impact on top line this year, given that we are already at this point of the year. So most likely we are going to hit the lower end on this top line range.

FFO guidance. If you take the midpoint of that range, so there we have a couple of assumptions to hit that midpoint. One is that the weather is going to be so-called normal weather and the remaining part of this year that repair projects will proceed as planned. SG&A expenses will be on the same level as the corresponding period. And no disposal, meaning that no additional cash taxes to be paid and no additional financial arrangement this year is not needed given the sizeable cash that we have at the moment, still have.

And dividend policy, no changes there, so 60% of FFO took the paid dividend. So, at this point I hand it back to Jani.

Jani Nieminen

Thank you, Erik. Of course, for most of the company, this year has been exceptional and the operating environment has been a bit challenging, and for us it's nice to be able to provide the information as Erik mentioned that we have and we are able to increase the total revenue, the net rental income and the FFO, and actually we've been able to increase the net rental and FFO more than the total revenue.

We do have a really strong project pipeline, a lot of projects under construction, providing additional growth next couple of years and there it is good to note that it seems that as we are providing more completed homes 2021/2022 at the same time in the total market, the number of completed new apartments will be going down.

All the estimates are providing the information that the pandemic will have only a temporary impact on the housing market and the urbanisation will continue creating a lot of demand for new rental apartments and other apartments as well. And I would say that Finland needs a lot of new homes in the biggest cities, so a bit worried about the number of start-ups this year.

But for Kojamo things look really good and we are well in line with our strategy and ready to continue on our growth path. Thank you and I will pass to Maija.

Maija Hongas

Thank you very much. Now we have some time for questions and first we will be taking questions from the conference call line. So, operator, please, we're ready.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do 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. Our first question is from Svante Krokfors from Nordea. You may begin your question, sir.

Svante Krokfors

Good morning and thank you for a good presentation of the Q3 results. I hope you can hear me.

Jani Niemien

We can hear you.

Svante Krokfors

Yes, thanks for opening up on the like-for-like. So, if I just stay a bit on that theme, so the reported number was 1.7 but adjusting for vacancy it would have been 2.4. That 1.7 compares to 2.8 last year. Can you give an indication of what the vacancy impact was last year to the 2.8% number?

Erik Hjelt

Last year, the occupancy rate played a positive role in like-for-like. Slightly positive.

Svante Krokfors

OK, so it's basically- you could assume that it's the like-for-like 2.4 adjusted is approximately a similar level as last year?

Erik Hjelt

Yes, that’s correct.

Svante Krokfors

OK, that's very clear. Then, regarding your EPRA yield, increased from 4.22 to 4.32. What's the reason behind that? You still at the same time you say that you walked away from a deal where it was in the mid 3 level.

Erik Hjelt

The main reason behind that positive change if you like, is that the passing rent is actually on a higher level than in corresponding period.

Jani Nieminen

I would add that of course, as I mentioned, for us, it's important that we are able to grow using multiple sources. And we are optimising our growth. So as I mentioned, we do have a really solid pipeline, a lot of projects under construction providing the net initial yield of 4 or above 4. So, if we would do an acquisition all the parameters should be good for us. So the micro location, the apartment sizes and the pricing, and we saw that we are not willing to pay mid-three or three and a low figure.

Svante Krokfors

You know I fully agree on that, and think your strategy to do own developments is optimal now. But what I don't understand is how the fact that you cannot buy anything because the yields are so low, why then the transfer into your own valuation?

Jani Nieminen

I think, as we provided the information after H1 results, of course we've been talking with the brokers and evaluators as well, and it seems that there is not enough information and completed transactions in the market, and so it seems that the yields concerning valuation stay stable this year, and if there is enough new information then the valuators will think about the issue next year.

Svante Krokfors

OK, that's clear. And you said that you had two portfolios that you looked at. The second one was, you said around 3.5 yield. Can you elaborate? Was that newly built or older apartments?

Jani Nieminen

It's an ongoing project, so I'm choosing my words carefully. So, it's a combination.

Svante Krokfors

OK, that's clear. And OK, I think that's all from me for now at least. Thank you.

Operator

Thank you very much. If you have a question for our speakers, please press 01 on your telephone keypad to enter the queue. Our next question is from Oliver Carruthers from Goldman Sachs. You may begin your question, sir.

Oliver Carruthers

Good morning, thank you very much for the presentation. Just a couple of quick ones from me. On the lower like-for-like rent growth progression for this year, I think it was 1.7% as your [? 00:46:46]. What's the split on this between occupancy and rental pricing? Is it all in relation to the weaker occupancy, the fact that this number has come down from I think about 2.7% last year?

Jani Nieminen

Thank you for the question. Yes, as I provided colour, so, the components inside the like-for-like growth was that the occupancy as a negative impact was 0.7%. So actually, what it means is that the increase in the rents and water charges was 2.4.

Oliver Carruthers

Got it. That's very, very helpful. Thank you and sorry I missed that number earlier. And then on the second quick question: based on what you were saying around the velocity of the leases you've been signing through to October, should we expect this 96.3% occupancy number to improve by year end?

Jani Nieminen

Of course, if we are able to increase the number of new tenant agreements, as we have been during the summer, they will have a positive impact. But there is a slight delay. Of course, always when a new customer signs the tenant agreement until they really move inside the apartment and start paying.

Oliver Carruthers

OK, maybe I'll phrase it another way. What would be the, I guess, normalised— You had this kind of supply impact from the long-term rentals. What would be the best way to think about a normalised occupancy rate once we get through this?

Jani Nieminen

We had the historical figure, so on some of the pages, I don't recall the exact number, but it's around 97%, the occupancy levels.

Erik Hjelt

On page 17 you can find the historical figures.

Oliver Carruthers

Very helpful. Thank you very much.

Operator

Thank you, our next question is from Svante Krokfors from Nordea. You may begin your question.

Svante Krokfors

Yes, hi again, a follow up question. You said that – I didn't catch it all – but, regarding your guidance of 2% to 5% revenue growth, wasn't sure if you said that it's going likely to be closer to the lower end. Do you have any indications regarding the FFO guidance or do you have any comments on that? Will that also be to the lower end, or are there too many factors affecting that?

Erik Hjelt

In the FFO guidance, of course, there are many factors, but I tried to give colour of what is required to hit the midpoint of the FFO range. Of course, it depends on all those factors. As mentioned, it's depending on the weather of the remaining part, so to hit the midpoint it requires to have normal weather on the remaining part of the year, to have this ongoing repairs projects to proceed as planned, to have SG&A expenses on a previous year's level and no disposals, so no additional cash taxes to be paid and no additional financing arrangement as not needed, given the size of the cash at the moment.

So, if these will happen then most likely we are pretty close to the midpoint of that range, but as you said, there are many factors so we are not able to provide any further information where we are going to hit it. So it depends.

Svante Krokforst

But top line is going to be below 3.5% growth?

Erik Hjelt

Top line is going to be most likely on the lower end of that outlook range.

Svante Krokforst

OK, thank you very much.

Operator

Thank you. There are no further questions at this time. Please go ahead, speakers.

Maija Hongas

Thank you. We have one question from the chat.

According to Statistics Finland, the rents are rising at the rate of 1.5% in greater Helsinki area. You have said previously that you are expecting higher like-for-like growth at a range of 2.1% to 2.5% in the medium term. How would you describe the level of your rents compared to the market and could you also elaborate the drivers behind the figure in Q3 and your growth ambition being above the market?

Jani Nieminen

Of course, we tend to think that we have the rent at the market and we are following the market really closely and actually we are using AI in pricing today. The pricing is a combination, of course, where we have a lot of parameters. The market price is dependent on the micro location of the products or what kind of building, the quality of the apartment, and then at the end of the day, the customer experience. What kind of services and additional values you are able to provide for the customer. And this is our strategy. We are providing high-quality customer experience along with public transportation, excellent micro locations.

Maija Hongas

OK, thank you. We have another question. The yield in the EPRA NAV gained 10 bp. Is that rounding effect or what is it?

Erik Hjelt

It is the increase of passing rents. So, if you look at the annualised cash passing rent in Q3 report page 25. So, at the end of last year it was 385.3 and then at the end of Q3 it was 393. So, this actually, this passing rent reacts faster to the higher amount of lease agreements in place than like-for-like growth. So, this explains the difference, the positive impact.

Maija Hongas

Thank you. It seems that we don't have any more questions. I would like to take this opportunity to invite you all to our Investors Day on 2nd of December this year. We will discuss some very topical themes for Kojamo there. As Jani mentioned, we are going to talk about the digital road map presented by Katri Harra-Salonen, our Chief Digital Officer. And also, we are going to publish our sustainability programme which will be presented by our Sustainability Manager Hannamari Koivula. And of course, we will also give you more colour on our investments and development side presented by Ville Raitio, our Chief Investment Officer.

And to wrap up, we are going to publish our full year results next year on 18th of February. So, hope to see you all in there. And thank you very much for participating today.

Operator

Ladies and gentlemen, this now concludes our conference call. Thank you for attending, you many now disconnect your lines.

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