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Analyst: Maciej Wewiórski

Sector: Commercial developer

Tower Investments

Company Profile

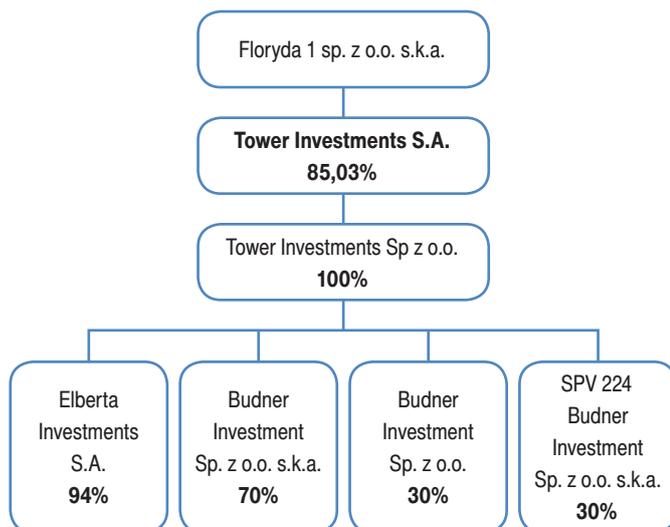
Tower Investments is a specialist development company that renders services to the biggest commercial networks. The services include (i) location selection, (ii) real estate purchase, (iii) administrative approvals acquisition, and (iv) turnkey projects.

Fast developing renowned networks such as Netto, Biedronka, Aldi, Brico Marche, and oil companies like Shell or BP are among Tower Investments' customers. In our view, the high quality of services offered by the Company should result in the increasing number of new contracts.

Currently Tower Investments is the only development company on the Polish market headed by the manager with over 10-year professional experience in one of the biggest Polish grocery chains. The expertise gained there is very welcome in the development market that delivers projects to retail networks.

Tower Investments' management forecasts a net profit-per-share growth in 2017 in spite of the share capital dilution. We view this scenario as realistic provided there are no delays with a delivery of realized contracts.

Group Capital Structure



Catalysts

1. Poland's GDP growth and Poles' increasing purchasing power
2. Interest rate decline
3. Retail networks expansion continuation
4. Further decline of commercial real estate capitalization rates
5. Increasing rents for commercial area
6. Expansion of retail networks

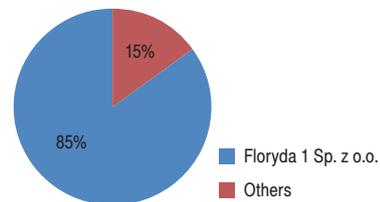
Risk factors

1. Retail networks expansion curbed
2. Rents for commercial space under pressure
3. Expansion of real estate capitalization rates
4. Lowering interest in the purchase of retail parks
5. Subcontracting works quality risk
6. Risk pertaining to the real estate legal defects and unfavourable conditions of plots of land

Shareholders structure

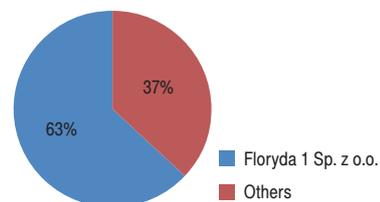
The founder and biggest shareholder of Tower Investments is Mr Bartosz Kazimierczuk who indirectly controls (via Floryda 1 company) an 85 per cent in Tower Investments' share capital. If 289,500 new shares are issued, then Mr Kazimierczuk will control 63% in the Company's capital/votes.

Fig. 1 Tower Investments; Shareholders structure before a new issue of shares (in capital/votes)



Source: The Company

Fig. 2 Tower Investments; Shareholders structure after a new issue of shares (in capital/votes)



Source: The Company

Company History

Tower Investments was founded in 2005. Table 1 (below) presents the crucial events in the Company's history.

Fig. 3 Tower Investments; Crucial events in the Company's history

Year	Event
2005	Tower Investments sp. z o. o. was founded
2005-2012	Over 30 consulting projects for the development companies were realized
2012	The start of a cooperation with Budner Group; new brand SHOPIN created
2012-2015	5 projects developed, 3 retail parks planned, 6 projects of development consulting and maintenance services
2015-2016	2 development contracts signed, 3 retail parks planned, 5 projects of development consulting and maintenance services, 1 fiduciary contract

Source: The Company

Share Issue Objectives

Tower Investments assumes to secure at least PLN 10 million net proceeds from the share issue. The Company intends to earmark these proceeds for the following projects:

- ▲ PLN 2 million for the Company's own contribution to a purchase of commercial premises in Mokotów, Warsaw for the purpose of a Biedronka grocery store. The preliminary agreement of a real estate purchase is planned at the turn of April and May this year. The total purchase price will amount to PLN 7 million while the remaining funding will be acquired via banking credit with a credit application to be submitted after the preliminary agreement has been signed. Biedronka will be the tenant of the purchased commercial premises. The purchase agreement will be concluded after the tenancy agreement has been signed. The disposal of the leased premises is planned after further 6 months.
- ▲ PLN 1.5 million for the Company's own contribution to a purchase of a land plot of about 4,030 sq. m at Woronicza Street in Warsaw. The preliminary agreement of a land plot purchase will be immediately signed following an acquisition of proceeds from the share issue. The total purchase price will amount to PLN 12 million. The remaining funding will come from the Company's own funds (PLN 1.5 million) and banking credit (PLN 9 million) with a credit application to be submitted after the preliminary agreement has been signed. The purchase agreement will be concluded after a construction permit is granted which according to Tower Investments may happen in the spring 2017. The Company plans to develop on the purchased plot an innovative residential and service building combining these two functions in an extraordinary way that has not been present on the Polish market. Service and commercial areas of this project will amount to 4,000 sq. m, the residential part will house apartments with a total useable floor area of 8,000 sq. m. This project will be financed either by proceeds from the bond issue or from the banking credit. The land purchase is contingent upon a prior leasing or disposal of the total commercial area.

- ▲ PLN 6 million PLN for advance payments linked to preliminary agreements of purchases of c. 10 land plots for market chains (Biedronka, Stokrotka, Intermarche, Kaufland), petrol stations (Shell, BP) and fast food restaurants (Burger King, Max) and also for project works connected with the investments to be developed in these locations. After the proceeds from the share issue are secured, the agreements (including sale agreements with final buyers) will follow which according to the Company will take place between April and September this year. Locations are sought in Warsaw, Zielona Góra, Żyrardów, Bytom, Wrocław, Ryki, Czeladź, of which 8 have been already consulted and initially approved by potential buyers and 2 were selected by the Company based on its experience.

Business Model

The Company's business model is based upon three strong pillars: development projects, retail parks, and development advice and maintenance services.

Development Projects

These projects are most frequently realized for a chain operator of the retail sector. The retail chain commissions a search for the optimal location meeting the established criteria. Know-how of Tower Investments' employees is a valuable asset here as they are experts in a catchment area analysis, inhabitants' purchasing power evaluation, transportation solutions or competitors' plans. Tower Investments' task is to find a suitable location, acquire the land plot and all necessary administrative approvals with a construction permit. Then the Company would resell the plot with all supporting documents to the operator for an earlier agreed price. Retail chains are willing to use the Company's services appreciating its knowledge of administrative procedures, experience in administrative proceedings, and fast and efficient acquisition of construction permits.

The Company's remuneration constitutes a difference between a purchase price and sale price of the land plot. The risk that the Company retains the land without a construction permit (which is then difficult to sell even for a purchase price) is scarce because Tower Investments makes an advance payment (in most cases it equals 10% of the purchase agreement value) and the final agreement is contingent on the valid construction permit acquisition. Immediately after the title to the land is granted Tower Investments resells the land to the retail chain operator which means that the capital is not tied-up for a longer term. The Company's competitive edge over the selling party is significant as the knowledge about potential turnover to be gained by the network operator at this place allows for setting a maximum price this operator is able to pay.

Retail Parks

The second business pillar is based on retail parks.

In 2012 Tower Investments group with Budner Group introduced a SHOPIN project which is about retail parks to be situated downtown or at high streets in smaller towns and cities (above 30,000 inhabitants). The SHOPIN concept is based on the turnkey

commercial and services premises with their own parking lots tailored to a location and characteristics of a given town. The assumed usable floor area oscillates between 1,000 sq. m and 5,000 sq. m. The tenant mix in a particular site is in most cases dependent upon the size and characteristics of a given town, but a permanent component is always a presence of a grocery network operator that is to ensure the constant traffic. The Company believes that in Poland there is still room for c. 70 SHOPIN retail parks.

To date two own SHOPIN retail parks have been realized by the Company, in Łódź Nowosolna and Garwolin. Main tenants are a grocery store Netto and drugstore Rossmann. The Garwolin Retail Park was commercialized and afterwards sold to a financial investor. The launch of a closed investment fund accessible to a wide number of investors is planned; then a subsequent sale of delivered and commercialized retail parks to this investment fund will follow.

Fig. 4 Tower Investments; Retail park financial model

	Project funded in 100% from equity capital	Project funded in 40%/60% from equity capital/debt
Equity	100	40
Debt	0	60
Invested capital	100	100
Rent (net operating income)	10	10
Return on the invested capital	10.00%	10.00%
Cap rate in case of sale to the financial investor	8.00%	8.00%
Value after completion and commercialization	125	125
Income	25	25
ROA	25%	63%
ROE	25%	63%

Source: DMBOŚ SA estimates

Development Consulting and Maintenance Services

Thanks to its experience and knowledge about each and every stage of the investment development the Company also renders services pertaining to the realization of single elements of an investment process, also consulting and investment substitution services.

Currently Tower Investments is engaged in the following projects within the scope of development consulting and maintenance services:

- ▲ Warszawa, ul. Wał Miedzeszyński – unit construction for Netto realized by Budner Investment,
- ▲ Łomianki, ul. Warszawska – unit construction for Netto realized by Budner Investment,
- ▲ Warszawa, ul. Skarbka z Gór – unit construction for Aldi Nova, realized by Budner Investment,

- ▲ Fiduciary purchase of land plots – upon the request of Unibail Rodamco Tower Investments has been purchasing a number of plots worth about PLN 80 million; the remuneration is set at 3% of the value of purchased land.

Strategy

The Company's development strategy for the coming years assumes:

- ▲ Increase in the number of development projects realized, cooperation with new networks,
- ▲ Limiting the activity pertaining to realization of units/premises
- ▲ Introduction of more demanding criteria for the selection of managers for rental projects to increase their sale value,
- ▲ Creation of the optimal model for residential and service investments, maximization of functionality and developer's margin,
- ▲ Establishment of a fund for rented premises and retail parks, issuance of investment certificates for numerous investors.

Market

Tower Investments operates on the expanding market.

In 2005 modern forms of trade accounted for 43% of the grocery sales value and in 2014 this rate increased to 77%. About 1,500 retail stores of mid-sized and large format (discounts, supermarkets and hypermarkets) and 6,500 in the small format (grocery stores, convenience stores, small proximity-type supermarkets) were added just in the years 2012-2014. From the customers' convenience point of view, discount stores turned out to be the leading concept of recent years in Poland. Dynamic chain development and consistent strengthening of a market position supported by the effective product and marketing strategy (making a discount format more similar to a supermarket) contributed to the fact that in 2014 discount stores accounted for 28% of total grocery sales with 3,600 points of sales. Given the expansion plans the rate of new openings is likely to slow down, still the respondents recruited from the management board members of grocery networks are certain that a discount concept will be growing its share in the retail market at least for the next 2 years.

In recent years commercial and service networks, especially of a discount format, have been constantly increasing the number of stores, albeit lately the slowdown of a growth rate is visible. Even in 2014 the networks were quite optimistic and forecast growth equalling to about 400 stores. However fewer than 300 stores were ultimately launched and in 2015 the number of new openings fell below 150 stores which means that the level of 4,000 store has not been reached yet though it was planned for 2014 (Source: *dlahandlu.pl*).

In 2015 Biedronka planned 100 openings. Actually it launched 1002, but closed 22 which resulted in an overall increase of 80 shops. At the 2015 end the network encompassed 2,667

shops. In 2014 Biedronka launched 209 shops with 60 opened in 4Q14 alone while in 4Q15 it added only 8. Biedronka's market share amounts to 24%.

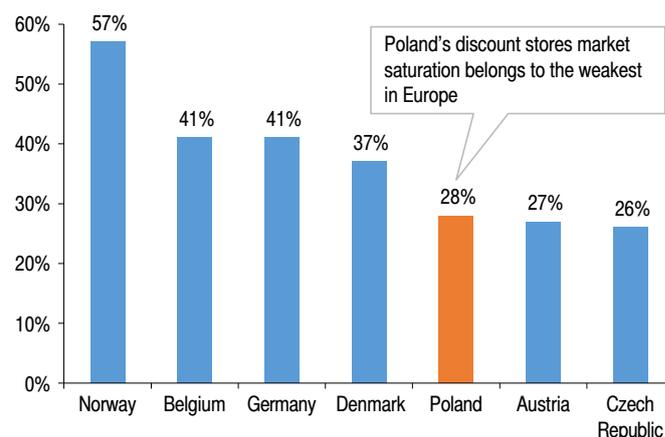
In 2015 Lidl planned over 30 openings (same as a year before). According to the recent data the network actually added 31 shops. The total number of Lidl's shops in Poland is in the vicinity of 580. A joint market share of Lidl and Kaufland (the Schwarz group) amounts to 8%.

In 2015 Netto planned about 20 openings and fulfilled its plan. Currently the network encompasses 354 stores. In 2014 the network assumed to be launching 40-50 shops p.a. Netto intends to open in 2016 another 20 shops, mainly in the biggest Polish cities.

Aldi network does not reveal its expansion plans. In 2015 it added 12 shops and operates 106 shops in total (94 at the end of 2014). Every year Aldi launches a dozen or so new shops.

In spite of a declining number of new openings the presence of discount chains on the Polish market is enhancing and this trend should continue for several years. Relatively low saturation of the Polish market in comparison to other countries belongs to the factors standing behind the expansion of discount chains, so is a limited number of attractive sites available at favourable prices, albeit this can be also counted among the factors limiting capability of further expansion.

Fig. 5 Discount stores market share in 2013



Source: Nielsen

Management's Forecasts

Tower Investments' management forecasts net profit in 2016 at PLN 7 million and in 2017 at PLN 13 million after the successful share issue and PLN 9 million without proceeds from the share issue. We would like to note that in spite of share capital dilution expected already in 2017 the net profit per share should be higher yoy. In our view potential delays in contracts delivery constitute the biggest risk for the management's forecasts.

BASIC DEFINITIONS

A/R turnover (in days) = $365 / (\text{sales} / \text{average A/R})$
Inventory turnover (in days) = $365 / (\text{COGS} / \text{average inventory})$
A/P turnover (in days) = $365 / (\text{COGS} / \text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets}) / \text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory}) / \text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable}) / \text{interest payable}$
Gross margin = $\text{gross profit} / \text{sales}$
EBITDA margin = $\text{EBITDA} / \text{sales}$
EBIT margin = $\text{EBIT} / \text{sales}$
Pre-tax margin = $\text{pre-tax profit} / \text{sales}$
Net margin = $\text{net profit} / \text{sales}$
ROE = $\text{net profit} / \text{average equity}$
ROA = $(\text{net income} + \text{interest payable}) / \text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit} / \text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS} / \text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$
DM BOŚ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:
Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.
This is a guide to expected relative price performance:
Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŚ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first. Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Banks

Net Interest Margin (NIM) = $\text{net interest income} / \text{average assets}$
NIM Adjusted = $(\text{net interest income adjusted for SWAPs}) / \text{average assets}$
Non interest income = $\text{fees \& commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income} / \text{average interest earning assets}) / (\text{interest cost} / \text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation} + \text{other operating costs}) / (\text{profit on banking activity} + \text{other operating income})$
ROE = $\text{net profit} / \text{average equity}$
ROA = $\text{net income} / \text{average assets}$
Non performing loans (NPL) = loans in 'substandard', 'doubtful' and 'lost' categories
NPL coverage ratio = $\text{loan loss provisions} / \text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

DM BOŚ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

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Niniejszy raport został sporządzony w Wydziale Analiz i Rekomendacji Domu Maklerskiego Banku Ochrony Środowiska SA z siedzibą w Warszawie (dalej DM BOŚ SA) w celu informacyjnym. Żadne informacje ani opinie wyrażone w raporcie nie stanowią zaproszenia ani oferty kupna lub sprzedaży papierów wartościowych, o których mowa w niniejszym dokumencie. Wyrażane opinie inwestycyjne stanowią niezależne, aktualne opinie DM BOŚ. Wszelkie szacunki i opinie zawarte w niniejszym raporcie stanowią ocenę DM BOŚ na dzień jego wydania. DM BOŚ SA ostrzega, iż niniejszy raport nie stanowi usługi doradztwa inwestycyjnego w rozumieniu przepisów dotyczących obrotu instrumentami finansowymi, a także nie stanowi oferty zbycia lub nabycia wymienionych w niej instrumentów finansowych i nie stanowi podstawy do zawarcia jakiegokolwiek umowy lub powstania jakiegokolwiek zobowiązania. Informacje zawarte w niniejszym raporcie oparte są na danych uzyskanych ze źródeł, które DM BOŚ SA, działając w dobrej wierze i z należytą starannością, uważa za wiarygodne. DM BOŚ SA nie gwarantuje jednak dokładności, kompletności oraz trafności tych informacji. DM BOŚ SA, jego organy zarządcze, organy nadzorcze, ani pracownicy nie ponoszą odpowiedzialności za działania lub zaniechania Inwestora podjęte na podstawie niniejszego raportu, nie ponoszą odpowiedzialności za straty lub utracone korzyści Inwestora, ani za wszelkie szkody, poniesione w wyniku decyzji inwestycyjnych Inwestora oraz skutki finansowe i niefinansowe powstałe w wyniku wykorzystania niniejszego raportu lub zawartych w nim informacji. Wszelkie opinie, prognozy, kalkulacje i szacunki zawarte w niniejszym raporcie stanowią jedynie wyraz subiektywnej oceny autora na moment jej wydania i mogą być w każdym czasie bez uprzedzenia zmieniane. Zabronione jest powielanie i rozpowszechnianie niniejszego raportu bez pisemnej zgody DM BOŚ SA. Klient wykorzystuje informacje zawarte w niniejszym raporcie na własne ryzyko i odpowiedzialność. Regulamin doradztwa inwestycyjnego i sporządzania analiz inwestycyjnych, analiz finansowych oraz innych rekomendacji o charakterze ogólnym dotyczących transakcji w zakresie instrumentów finansowych oraz instrumentów bazowych instrumentów pochodnych znajduje się na stronie internetowej bossa.pl w dziale Dokumenty.

Powyższy raport został sporządzony w związku z ofertą niepubliczną akcji serii B spółki Tower Investments SA

Raport adresowany jest do ograniczonego kręgu odbiorców. Został sporządzony na potrzeby klientów DM BOŚ SA oraz innych osób zainteresowanych. Raport nie jest przeznaczony do publikacji lub dystrybucji poza granicami Rzeczypospolitej Polskiej.

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Nadzór nad DM BOŚ sprawuje Komisja Nadzoru Finansowego.

Data sporządzenia raportu jest: 14.03.2016 r.

Data pierwszego udostępnienia do dystrybucji raportu jest: 14.03.2016 r.

Źródła informacji: Raporty bieżące, materiały Spółki, prospekt emisyjny, sprawozdania finansowe Tower Investments SA, GPW oraz serwisy informacyjne: ESPI, Notoria Services, PAP. Wymienione źródła informacji DM BOŚ uważa za wiarygodne i dokładne, jednak nie gwarantuje ich kompletności.

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- 2) DM BOŚ SA zawarł umowę o przygotowanie i przeprowadzenie oferty prywatnej, pełnienie funkcji Agenta Emisji oraz wprowadzenie do obrotu na rynku New Connect akcji serii B Emitenta. Z tytułu wykonanych usług otrzyma wynagrodzenie w związku z ofertą akcji Emitenta.
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- 4) Nie ma powiązań finansowych o charakterze odbiegającym od standardów rynkowych z Emitentem, po stronie osoby przygotowującej rekomendację, lub osoby bliskiej,
- 5) Osoby przygotowujące niniejszy raport, lub osoby bliskie, nie pełnią funkcji w organach Emitenta ani nie zajmują stanowisk kierowniczych u Emitenta,
- 6) Nie występują powiązania pomiędzy osobą przygotowującą niniejszy raport, osobą jej bliską a Emitentem papierów wartościowych.

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