GBC AG Investment Research

Aves One AG*4,5a,5b,6a,11

Rating: BUY
Target price: 13.87 €
(previously: 12.80 €)

Current price: 11.70 €
27.09.19 / XETRA-closing

Currency: EUR

Key data:

ISIN: DE000A168114
WKN: A16811
Symbol: AVES

Number of shares³: 13.02
Marketcap³: 152.28
Enterprise Value³: 1005.67
³ in m / in m EUR

Free float: 22.84%

Market segment:
Prime Standard
Regulated Market

Accounting Standard: IFRS

FY End: 31/12/

Designated Sponsor:
Hauck & Aufhäuser

Analysts:

Matthias Greiffenberger
greiffenberger@gbc-ag.de

Cosmin Filker
filker@gbc-ag.de

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Date of publication (english version): 09/10/2019 (11:30 am)
Target price valid: max. 31/12/2020

* List of possible conflicts of interest on page 8

Company profile

Sector: Asset-Management

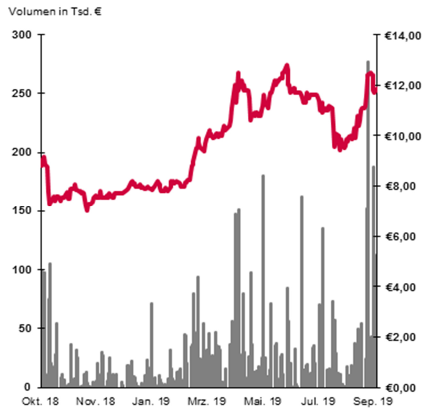
Focus: Rail and Container

Employees: 45 as of 30/06/2019

Established: 2013

Headquarter office: Hamburg

Executive Board: Tobias Aulich, Jürgen Bauer, Sven Meißner



Aves One AG is a strongly expanding holder of long-life logistics assets with a focus on freight cars. The portfolio also includes containers and swap bodies. The company plans to increase the value of its assets to more than EUR 1 billion by the end of 2019. With a young, profitable freight car portfolio, Aves One is one of the leading holders of rail logistics assets in Europe.

P&L in mEUR, financial year-end	31/12/2018	31/12/2019e	31/12/2020e	31/12/2021e
Sales	77.68	118.10	130.75	145.25
EBITDA	52.19	86.13	97.07	107.61
EBIT	31.17	52.64	59.07	66.06
Net profit	12.03	10.96	13.56	17.15
Key figures in EUR				
Earnings per share	0.92	0.84	1.04	1.32
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
EV/Sales	12.95	8.52	7.69	6.92
EV/EBITDA	19.27	11.68	10.36	9.35
EV/EBIT	32.26	19.10	17.03	15.22
PE	12.65	13.89	11.23	8.88
PB	4.39			

Financial calendar
November 2019: Q3 Report 2019
25.-27. 11.2019: German EKF
10.-11. 11.2019: MKK - Munich Capital Markets Conference

**latest research by GBC:
Date: publication/target price in EUR/rating
06.06.2018: RS / € 12.80 / BUY
28.05.2019: RS / € 12.80 / BUY
14.08.2018: RS / € 12.10 / BUY
05.12.2017: RS / € 9.10 / BUY
14.11.2017: RS / € 9.10 / BUY
** The research studies indicated above may be viewed at www.gbc-ag.de, or requested from GBC AG, Halderstr. 27, D86150 Augsburg

Business development in the 1st HY 2019, good half-year figures, guidance confirmed, stock price target increased significantly to EUR 13.87 (previously: EUR 12.80)

in € m	HY 2017	HY 2018	HY 2019
Sales	24.46	32.37	55.56
EBITDA	12.74	21.97	41.85
EBITDA-Margin	*52.1%*	*67.9%*	*75.3%*
EBIT	4.89	13.25	26.46
EBIT-Margin	*20.0%*	*40.9%*	*47.6%*
Net income	-15.62	4.63	5.05
EPS in €	-1.70	0.36	0.39

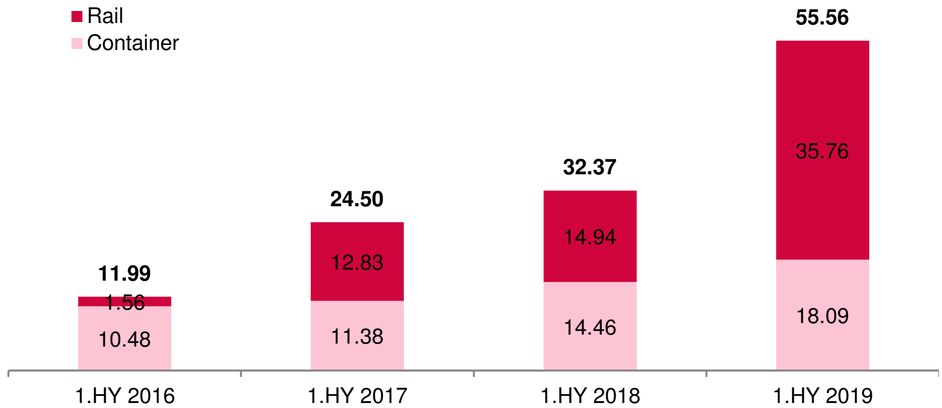
Sources: Aves One, GBC

Revenue growth – dynamic increase of around 70%

Aves One AG has significantly increased its asset portfolio recently which has led to a significant increase in revenues. The most recent transactions should only be reflected fully in the coming quarters, which should lead to further revenue increases. Assets under management (AUM) increased overall by 63.5% to EUR 839.34 million (PY: EUR 523.77 million).

In addition to the expansion of assets, a further strategic focus was also on the Rail and Container segments. Since the Real Estate segment was last reported, the logistics property in Alsdorf, Germany, was sold in June 2019. The property was on the balance sheet at EUR 10.90 million and the company achieved a book profit of EUR 0.19 million from the sale.

Revenue development of the main segments Rail and Container on a half-year basis (in € million)



*Sources: Aves One, GBC; *excluding Holding activities & consolidation*

In the first half of 2019, revenues increased by 71.7% to EUR 55.56 million (PY: EUR 32.37 million), which was mainly as a result of the larger asset portfolio. The company has invested more in the recent past to additional support its growth course.

This is also reflected in segment revenues. Rail revenues increased by 139.3% to EUR 35.76 million (PY: EUR 14.94 million). In the Container segment, significant revenue increases of 25.1% were also achieved while overall revenues increased here by EUR 18.09 million (PY: EUR 14.46 million).

Fixed assets (in € m)	1. HY 2018	1. HY 2019
Container	269.05	279.51
Rail	244.10	559.40
Group	**523.77**	**839.34**

Gross returns (in %)	1. HY 2018	1. HY 2019
Container	5.4%	6.5%
Rail	6.1%	6.4%
Group	**6.2%**	**6.6%**

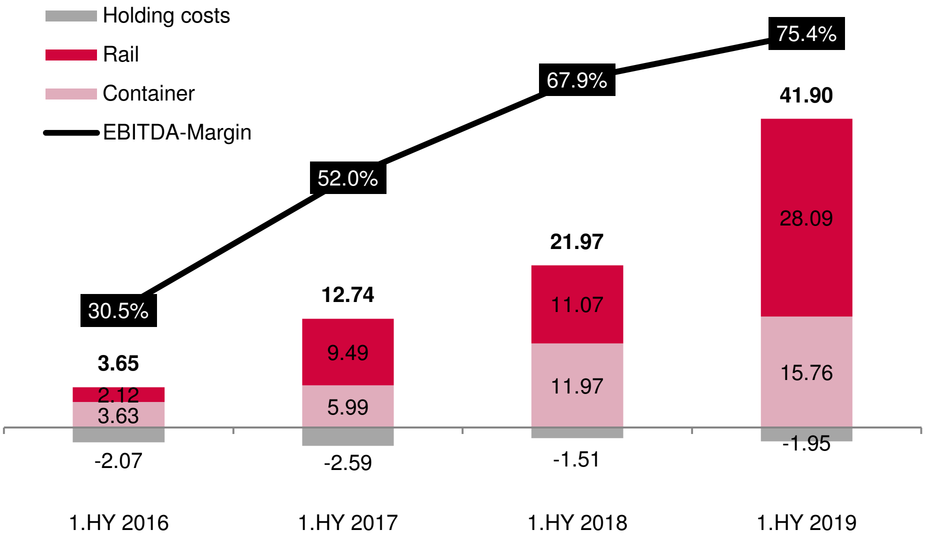
Sources: Aves One, GBC

In addition to revenue increases through sales volumes, the company was also able to noticeably increase its utilisation and rental rates. This was also reflected in increased gross returns. In the Container segment, gross returns rose by 5.4% (H1 2018) to 6.5% (H1 2019) and in the Rail segment, gross yields increased accordingly from 6.1% to 6.4%.

Earnings development – above-average growth, EBIT doubled

This dynamic revenue growth was reflected in an above-average improvement in EBITDA. EBITDA increased by 90.8% to EUR 41.90 million (PY: EUR 21.97 million), a margin improvement from 67.9% (H1 2018) to 75.4% (H1 2019). The above-average improvements in earnings were mainly due to our lean management approach which resulted in comparatively low personnel expenses. Personnel expenses thus rose by 11.3% to EUR 2.34 million (PY: EUR 2.10 million).

Development of EBITDA and EBITDA margin



Sources: Aves One, GBC, the former Real Estate segment is not shown, but is included in Group EBITDA

Overall, EBIT was doubled by 100.2% to EUR 26.46 million (PY: EUR 13.22 million) thanks, among other things, to high cost discipline and economies of scale. In the course of financing the assets acquired, the financial result continued to increase by 57.5% to EUR 19.14 million (PY: EUR 12.15 million).

Non-cash exchange rate effects amounted to EUR 1.17 million (PY: EUR 5.09 million). Adjusted for this effect, EAT was generated which totalled EUR 3.88 million (PY: EUR -0.46 million). As a result, significant earnings were achieved in the past half-year of 2019, accompanied by a high level of profitability.

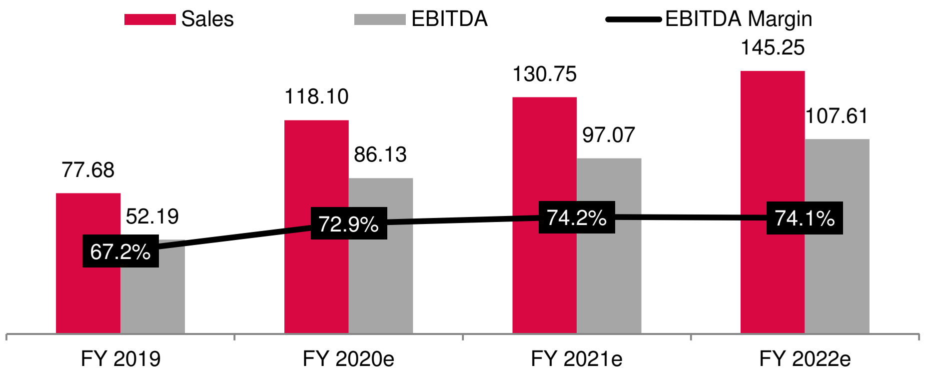
Forecasts and model assumptions – guidance for strong growth confirmed – focus on EUR 1.00 billion AUM

P&L (in € m)	FY 2018	FY 2019e	FY 2020e	FY 2021e
Sales	77.68	118.10	130.75	145.25
EBITDA	52.19	86.13	97.07	107.61
EBITDA margin	*67.2%*	*72.9%*	*74.2%*	*74.1%*
EBIT	31.17	52.64	59.07	66.06
EBIT margin	*40.1%*	*44.6%*	*45.2%*	*45.5%*
Net income	12.03	10.96	13.56	17.15
EPS in €	0.92	0.84	1.04	1.32

Source: GBC

The company's rapid growth rate was again evident in the first half of the year and we expect this development to continue in the second half too. The company confirmed the guidance for the 2019 financial year with revenues of EUR 110 million and EBITDA of EUR 80 million. We continue to view this guidance as conservative and confirm our forecast with revenues of EUR 118.10 million in the current 2019 financial year and an EBITDA of EUR 86.13 million. Our estimates also tally with the development from the first half of the year which, extrapolated to the full year (excluding the asset acquisitions already made in 2019), has already generated revenues of EUR 111.11 million and an EBITDA of EUR 83.69 million. In line with the acquisitions made, revenues and earnings should again be slightly higher.

Forecast of revenue development (in € m), EBITDA (in € m) and EBITDA margin (in %)



Source: GBC

The company is also well on the way to achieving its planned EUR 1 billion of assets under management by the end of the 2019 financial year. AUM of EUR 839.34 million were already reported in the first half of the year. In the medium term, we anticipate further asset acquisitions and expect asset utilisation to remain at a high level. This would also generate large gross margins in the future. While absolute financing costs are expected to increase as a result of asset acquisitions, we expect to be able to further optimise the financing structure, especially against the backdrop of continuing low interest rates.

Against the background of good corporate development and the rollover effect, we raise our price target to € 13.87 (previously € 12.80) and award the buy rating.

VALUATION

Model assumptions

We rated Aves One AG using a three-stage DCF model. Starting with the specific consolidated estimates for the years 2019-2021 in phase 1, the outlook for 2022 to 2026 was developed in phase 2 using value drivers. We expect increases in revenue of 10.0 %. We have set 70.0% as the target EBITDA margin. We have included the tax rate in phase 2 at 30.0%. Additionally, after the end of the forecast horizon, a residual value is determined in the third phase by means of a perpetual annuity. As the final value, we assume a growth rate of 2.0 %.

Determining the capital costs

The weighted average cost of capital (WACC) of Aves One AG is calculated from the equity cost and the cost of debt. The market premium, the company-specific beta, as well as the risk-free interest rate have to be determined in order to determine the equity cost.

The risk-free interest rate is derived from the current structured interest rate curves for risk-free bonds in accordance with the recommendations from the “Fachausschuss für Unternehmensbewertung und Betriebswirtschaft” (FAUB, Special Committee for Business Valuation and Business Management) of the “Institut der Wirtschaftsprüfer in Deutschland e.V.” (Institute of Public Auditors in Germany). This is based on the zero bond interest rate calculated using the Svensson Method published by the German Bundesbank. In order to compensate for short-term market fluctuations, the average returns for the previous three months are used and the result is rounded up to the nearest 0.25 basis points.

The value currently used for the risk-free interest rate is 1.00% (previously: 1.00%).

We set the historical market premium of 5.50 % as a reasonable expectation of the market premium. This is supported by historical analyses of equity market returns. The market premium reflects in a percentage the improved return expected from equity markets relative to low-risk government bonds.

According to GBC estimates, a beta of 1.76 (previously: 1.76) is currently determined.

Using the premises provided, the equity cost is calculated at 10.70 % (previously: 10.70 %) (beta multiplied by risk premium plus risk-free interest rate). As we assume a sustainable weighting of the equity cost of 10.0%, the result is a weighted average cost of capital (WACC) of 3.22 %.

Valuation result

Discounting of future cash flows is based on the entity approach. We have calculated the corresponding weighted average cost of capital (WACC) to be 3.22%. The resulting fair value per share at the end of the 2020 financial year corresponds to the stock price target of EUR 13.87. We have therefore upwardly adjusted the previous target price of EUR 12.80.

Aves One AG - Discounted Cashflow (DCF) model scenario

Value driver of the DCF - model after estimate phase:

consistency - phase	
Revenue growth	10.0%
EBITDA margin	70.0%
Depreciation to fixed assets	2.5%
Working Capital to revenue	40.0%

final - phase	
Eternal growth rate	2.0%
Eternal EBITA margin	47.8%
Effective tax rate in final phase	30.0%

Three phase DCF - model:

phase	estimate			consistency					final
in mEUR	FY 19e	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	final value
Revenue	118.10	130.75	145.25	159.78	175.75	193.33	212.66	233.93	
Revenue change	52.0%	10.7%	11.1%	10.0%	10.0%	10.0%	10.0%	10.0%	2.0%
Revenue to fixed assets	0.12	0.12	0.12	0.11	0.11	0.11	0.10	0.10	
EBITDA	86.13	97.07	107.61	111.84	123.03	135.33	148.86	163.75	
EBITDA margin	72.9%	74.2%	74.1%	70.0%	70.0%	70.0%	70.0%	70.0%	
EBITA	52.64	59.07	66.06	81.29	88.03	95.41	103.34	111.84	
EBITA margin	44.6%	45.2%	45.5%	50.9%	50.1%	49.4%	48.6%	47.8%	47.8%
Taxes on EBITA	-2.63	-5.91	-6.61	-12.19	-17.61	-23.85	-31.00	-33.55	
Taxes to EBITA	5.0%	10.0%	10.0%	15.0%	20.0%	25.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	50.01	53.16	59.45	69.10	70.42	71.56	72.34	78.29	
Return on capital	5.8%	4.9%	5.0%	5.3%	4.8%	4.3%	3.8%	3.6%	3.2%
Working Capital (WC)	61.29	67.85	75.37	63.91	70.30	77.33	85.06	93.57	
WC to Revenue	51.9%	51.9%	51.9%	40.0%	40.0%	40.0%	40.0%	40.0%	
Investment in WC	-20.98	-6.56	-7.52	11.46	-6.39	-7.03	-7.73	-8.51	
Operating fixed assets (OAV)	1025.00	1110.00	1222.00	1400.00	1596.60	1820.80	2076.48	2368.07	
Depreciation on OAV	-33.49	-38.00	-41.55	-30.55	-35.00	-39.91	-45.52	-51.91	
Depreciation to OAV	3.3%	3.4%	3.4%	2.5%	2.5%	2.5%	2.5%	2.5%	
Investment in OAV	-229.36	-123.00	-153.55	-208.55	-231.60	-264.12	-301.21	-343.50	
Capital employment	1086.29	1177.85	1297.37	1463.91	1666.90	1898.13	2161.55	2461.64	
EBITDA	86.13	97.07	107.61	111.84	123.03	135.33	148.86	163.75	
Taxes on EBITA	-2.63	-5.91	-6.61	-12.19	-17.61	-23.85	-31.00	-33.55	
Total investment	-250.34	-129.56	-161.07	-197.09	-237.99	-271.15	-308.94	-352.01	
Investment in OAV	-229.36	-123.00	-153.55	-208.55	-231.60	-264.12	-301.21	-343.50	
Investment in WC	-20.98	-6.56	-7.52	11.46	-6.39	-7.03	-7.73	-8.51	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	-166.84	-38.40	-60.07	-97.44	-132.56	-159.67	-191.08	-221.81	2499.88

Value operating business (due date)	1231.10	1309.21
Net present value explicit free cashflows	-770.74	-757.19
Net present value of terminal value	2001.84	2066.40
Net debt	1046.22	1128.62
Value of equity	184.89	180.59
Minority interests	-0.10	-0.09
Value of share capital	184.79	180.50
Outstanding shares in m	13.02	13.02
Fair value per share in EUR	14.20	**13.87**

Cost of capital:

Risk free rate	1.0%
Market risk premium	5.5%
Beta	1.76
Cost of equity	10.7%
Target weight	10.0%
Cost of debt	3.2%
Taxshield	90.0%
Taxshield	25.2%
WACC	**3.2%**

Return on Capital	WACC				
	3.20%	**3.21%**	**3.22%**	**3.23%**	**3.24%**
3.22%	14.09	12.69	11.32	9.96	8.63
3.23%	15.39	13.98	12.59	11.23	9.88
3.24%	16.69	15.27	**13.87**	12.49	11.14
3.25%	17.99	16.56	15.14	13.76	12.39
3.26%	19.29	17.84	16.42	15.02	13.64

ANNEX

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The recommendations/ classifications/ ratings are linked to the following expectations:

BUY	The expected return, based on the derived target price, incl. dividend payments within the rel 10%.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the rel 10% and < + 10%.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the <= - 10%.

GBC AG's target prices are determined using the fair value per share, derived using generally recognised and widely used methods of fundamental analysis, such as the DCF process, peer-group benchmarking and/or the sum-of-the-parts process. This is done by including fundamental factors such as e.g. share splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

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The analysts responsible for this analysis are:
Matthias Greiffenberger, M.Sc., M.A., Financial Analyst
Cosmin Filker, Dipl. Betriebswirt (FH), Deputy Principal Analyst

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GBC AG
Halderstraße 27
D 86150 Augsburg
Tel,: 0821/24 11 33-0
Fax,: 0821/24 11 33-30
Internet: http://www,gbc-ag,de

E-Mail: compliance@gbc-ag.de

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- R E S E A R C H & I N V E S T M E N T A N A L Y S E N -

GBC AG
Halderstraße 27
86150 Augsburg
Internet: http://www.gbc-ag.de
Fax: ++49 (0)821/241133-30
Tel.: ++49 (0)821/241133-0
Email: office@gbc-ag.de