



Research Report (Anno)

Coreo AG



- FY 2022 was marked by portfolio optimisation -
- Postponed investments should be realised in 2024 -
- Break-even expected from 2024 -

Target price: € 1.30

Rating: BUY

IMPORTANT NOTE:

Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section § 85 WpHG und Art. 20 MAR on page 18

Note on research as a “minor non-monetary benefit” according to the MiFID II regulation: This research meets the requirements for being classified as a “minor non-monetary benefit”. For more information, see the disclosure under “I. Research under MiFID II”

Date and time of completion of the study: 14.07.2023 (08:47 am)

Date and time of the first dissemination of the study: 14.07.2023 (11:30 am)

Validity of the price target: until max. 31.12.2024

Coreo AG*4,5a,6a,11

Rating: Buy
Target price: EUR 1.30
(previously: EUR 1.85)

Current share price: € 0.48
13.07.23 / XETRA; 5:36 am
Currency: EUR

Master data:

ISIN: DE000A0B9VV6
WKN: AOB9VV
Ticker symbol: CORE
Number of shares³: 22.55
Market cap³: 10.82
EnterpriseValue³: 54.33
³ in million / in EUR million

Transparency level:
Freiverkehr
Market segment:
Open Market

Accounting:
IFRS

Financial year: 31.12.

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* Catalogue of possible conflicts of interest on page 19

Company profile

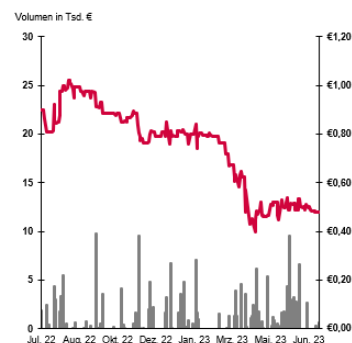
Industry: Real estate
Focus: Commercial and residential real estate

Employees: 7 Status: 31.12.2022

Foundation: 2003

Head office: Frankfurt am Main

Board of Directors: Jürgen Faè



Coreo AG, based in Frankfurt am Main, is a dynamically growing real estate company focused on German residential properties. Investments are made in properties with significant potential for value appreciation where there is a need for development, preferably in medium-sized centres. The aim is to build up an efficiently managed, high-yield property portfolio by means of prudent development and sale of non-strategic properties. Coreo AG's strategy is characterised by an expansive and selective approach to its real estate investments. The focus of this concept is on the acquisition and management of residential properties. Here, preference is given to business locations with high yield levels in Germany, which creates the basis for long-term and stable rental income. In addition, opportunities and chances are used very selectively. In doing so, Coreo AG acquires value-add portfolios/properties in order to significantly and sustainably increase their value in the medium term with an active "manage to core" approach. Non-strategic portfolio components are sold on at a profit.

P&L in EUR million \ FY-end	31.12.2022	31.12.2023e	31.12.2024e	31.12.2025e
Total earnings	10.38	9.27	11.50	14.34
EBITDA	1.05	2.28	5.19	7.98
EBIT	0.98	2.18	5.09	7.88
Net profit for the year	-1.90	-0.59	0.72	1.67

Key figures in EUR

Earnings per share	-0.08	-0.03	0.03	0.07
Dividend per share	0.00	0.00	0.00	0.00

Key figures

EV/total yields	5.24	5.86	4.72	3.79
EV/EBITDA	51.74	23.82	10.47	6.81
EV/EBIT	55.38	24.91	10.67	6.90
KGV	neg.	neg.	15.11	6.50
KBV	0.35			

Financial dates

October 2023: HY Report 2023
28.-30.11.2023: German Equity Forum

**last research from GBC:

Date: Publication / Target price in EUR / Rating
26.10.2022: RS / 1.85 / BUY
30.05.2022: RS / 2.15 / BUY
04.10.2021: RS / 2.60 / BUY
19.08.2021: RS / 2.60 / BUY

** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg.

EXECUTIVE SUMMARY

- In the past financial year 2022, Coreo AG's focus was on active asset management of the existing portfolio, whereas no new investments were made for the first time since the start of real estate-related business activities. In particular, the delay of the acquisition of the largest portfolio in the company's history, which had been planned since 2021, was responsible for this. In this respect, the focus of business activities was on extensive refurbishments and conversion measures at existing properties in Kiel, Wetzlar or Bruchsal.
- Nevertheless, a significant increase in gross rental income to € 5.97 million (previous year: € 4.35 million) was achieved, in particular due to the first full-year inclusion of properties acquired in 2021. In addition, rental increases were achieved in the existing portfolio and vacancies in the refurbished properties were reduced. On the other hand, proceeds from disposals fell to €2.89 million (previous year: €10.32 million). These primarily include the complete sale of the Mannheim portfolio and some properties in the Göttingen portfolio. As a result, total income of €10.38 million (previous year: €16.53 million) was below the previous year's level, but above our expectations (GBC forecast: €7.99 million) due to higher than expected proceeds from disposals.
- The decline in earnings is also reflected in the drop in EBIT to € 0.98 million (previous year: € 2.84 million). This was lower than we expected due to higher maintenance measures (GBC forecast EBIT: € 2.63 million). Based on this, Coreo AG was once again unable to reach break-even at the level of the after-tax result. At present, the company's rental income is still too low to cover its operating expenses, but it is still not sufficient to cover its financial expenses.
- The current P&L picture should only change with the expected expansion of the rental portfolio. One possible property acquisition that is likely to have a relevant influence on the company's revenue and earnings development is the transfer of the so-called Spree East portfolio, for which a purchase agreement was already reached in 2021. According to the company's announcement at the time, the portfolio comprises a total of 1,341 flats and 15 commercial units, which would make it the largest acquisition in the history of Coreo AG. Although the company is currently still in negotiations, we assume that the acquisition will not take place until the coming financial year 2024. Likewise, an exclusive agreement for the purchase of a portfolio in Hagen/Rostock with an investment volume of € 2.5 million was concluded in July 2022.
- Assuming the expected addition of these portfolios and after taking into account further investments in the coming financial years, rental income, which will then be the most important earnings variable, should gradually increase to € 6.53 million (2023e), € 9.56 million (2024e) and € 12.36 million (2025e). From the coming financial year onwards, these should be enough to reach the break-even point at the level of the after-tax result.
- Within the framework of our DCF valuation model, we have determined a new target price of € 1.30 (previously: € 1.85). Compared to our previous valuation, we have made a significant forecast adjustment. On the one hand, we expect a slower build-up of the portfolios. On the other hand, rental income is more important than in our previous forecasts. Compared to the trading business, this is accompanied by lower revenues, but at the same time there should be higher profitability. The weighting of capital costs is also shifting towards debt capital, which has led to a reduction in the WACC. We continue to give the rating BUY.

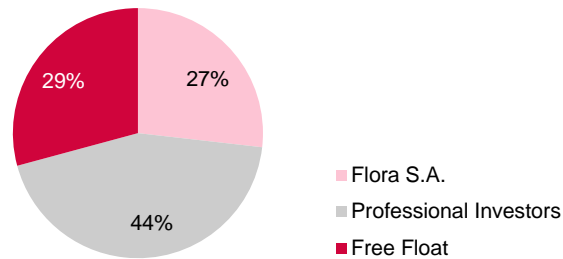
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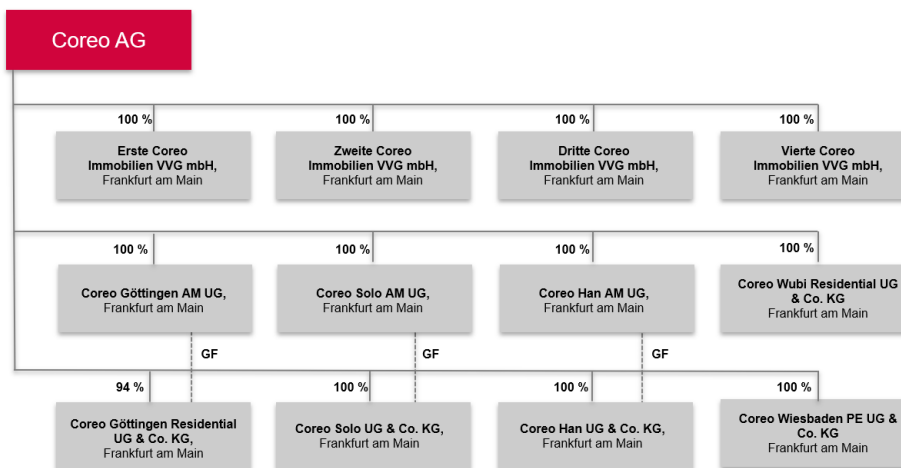
COMPANY

Shareholder structure

Shareholder	
Flora S.A.	26,8%
Institutional investors	44,0%
Free Float	29,2%



Scope of consolidation



Sources: Coreo AG; GBC AG

Property highlights 01.01.2022 - 31.12.2022

Coreo AG did not acquire any new properties in the past 2022 financial year. Instead, the company focused on integrating and optimising the acquisitions made in 2021 (production site for automotive suppliers and logistics property in Delmenhorst) and the existing portfolio. In the existing portfolio, the property in Kiel was handed over to the tenant B&B Hotels in May 2022 after extensive construction work, thus achieving full occupancy here. In addition, a long-term lease agreement (10 years) was concluded with the city of Wetzlar. Accordingly, after the refurbishment of the property in Wetzlar, the municipal youth welfare office moved in, which means that this property is also fully let.

As part of the portfolio optimisation, Coreo AG sold the development area at Mannheim's freight station in its entirety to a private investor. The company bought this property in 2017 and has since sold it in full via several transactions.

A standstill has been in place regarding the acquisition of the largest portfolio in the company's history, which has been planned since 2021. As early as mid-July 2021, Coreo AG had reported on the planned acquisition of a portfolio consisting of 1,341 residential and 15 commercial units, with a rental area of approximately 73,900 sqm, spread across 10 locations in Berlin, North Rhine-Westphalia, Mecklenburg-Western Pomerania, Saxony-Anhalt and Thuringia. With an expected total investment volume of over €50 million, this would be the largest acquisition in the company's history. We expect the transaction to be completed in the coming 2024 financial year.

MARKET AND MARKET ENVIRONMENT

Market development residential real estate

The market environment for residential real estate has changed fundamentally in the past year. In particular, the containment of the significant increase in inflation had made financing costs considerably more expensive. In the wake of the adoption of the ECB's zero interest rate policy, according to Bundesbank statistics, the effective interest rate for secured housing loans with at least 10-year fixed interest rates increased significantly to 3.62 % (provisional value for April 2023). In January 2022, the effective interest rate was just 1.33 %.

In addition, the entire construction industry was characterised by bottlenecks in personnel and materials as well as an increase in construction costs. Within one year (February 2022 to February 2023), the construction prices of conventionally manufactured residential buildings increased significantly by 15.1 %. According to data from the Federal Statistical Office, double-digit growth rates have now been recorded in the construction price index for seven quarters in a row.

The combination of economic uncertainty, rising interest rates and the increase in construction costs led to a significant slump in demand for loans. The new business volume of residential construction loans to private households with a fixed interest rate period of more than 10 years was significantly below the previous year's value in 2022 at € 113.5 billion (previous year: € 135.8 billion). Especially in the second half of 2022, there was a strong decline in demand, which also continued in the first months of 2023. In January to April 2023, the volume of new business plummeted to €20.3 billion (previous year: €52.8 billion) compared to the same period of the previous year.

This development is also reflected in the declining number of building permits and construction completions. According to preliminary results, the construction of 354,400 dwellings was approved in 2022, which corresponds to a decline of 6.9 % compared to the previous year. While in the first half of the year the decline in newly approved dwellings was only 2.1 %, in the second half of the year there was a visible slump in approval figures of 12.6 %. For 2022, a decline of 18.0 % to around 270,000 dwellings is also expected in the number of completed buildings, which means that the construction overhang (difference between permits and completions) is likely to have increased further. The federal government's target of 400,000 per year has thus been clearly missed.

Especially as the demand side continues to be characterised by a rising population. The noticeable influx in the wake of the Ukraine war in particular had a significant impact on the demand side. According to empirica data, net immigration in 2022 was around 1.1 million, the highest level since the Federal Republic of Germany came into existence. On the one hand, the development of residential property not in line with demand is accompanied by a decline in vacancy rates, which were already at a low level of around 3% in 2021. On the other hand, rental prices reacted with a significant increase. According to data from the German Property Federation (ZIA), rents across Germany rose by 5.2 % in 2022, a much stronger increase than in previous years. BNP Real Estate summarises the current situation on the residential property market as follows: "The price discovery phase in the residential property market is still ongoing. It should be noted that flats remain an attractive investment for both private and institutional investors. This is supported by the persistent surplus demand, the potential for rent increases, which is more evident than before, and a certain hedge against inflation."

Market development commercial real estate

Although rising interest rates and increased financing costs also have an influence on the sub-sector of commercial real estate, the general economic development is a significant factor for this type of real estate. The example of office properties also shows that other factors such as social components, a feel-good atmosphere, the possibility of flexible working hours and ESG aspects play an important role.

Parallel to the development of residential properties, the year 2022 was characterised by rising rents for office properties. This was due to the passing on of higher costs, but also the increased demands on property quality. According to ZIA data, all location categories were characterised by rent increases, with A-cities showing the greatest increase.

Although a rising vacancy rate can be observed, market observers see properties in peripheral locations and properties that do not meet certain energy standards as being particularly affected. Jones Lang LaSalle describes the current trend as a "flight to quality", according to which demand is particularly high for office properties that meet certain energy standards. Other aspects such as social components, a feel-good atmosphere and the possibility of flexible working hours would also play a role in the search for a location. In this respect, despite rising vacancy rates, rent levels continued to rise. For prime rents, increases of 2.1% to 6.6% were determined.

Another aspect of the robust development of the office markets is the development of the number of employees in Germany. According to data from the Federal Statistical Office, the number of people in employment at the end of 2022 was 45.6 million, the highest level since German reunification. Compared to the previous year, almost 600,000 more people were employed. This increase took place almost exclusively in the service sector, which also speaks for a higher demand for office space.

Since Coreo AG has in part long-term rental contracts for commercial properties, the effects should be limited. In addition, Coreo AG's focus on B, C and D cities, which are still underdeveloped from a real estate perspective, should prove to be an advantage. Since these locations have not yet participated in the strong price increases of the A-locations, the risk of price declines should be lower. In this respect, Coreo AG's focus on investing in the commercial and residential property market in German secondary locations is understandable, both from a purchase price perspective and in terms of expected returns.

CORPORATE DEVELOPMENT

Key figures at a glance

Income statement (in € million)	FY 2021	FY 2022	FY 2023e	FY 2024e	FY 2025e
Income from rentals	3.52	5.97	6.53	9.56	12.36
Proceeds from the sale of real estate	6.09	2.89	0.52	0.00	0.00
Carrying amount of the properties sold	-5.60	-3.43	-0.52	0.00	0.00
Valuation result	0.85	1.52	2.22	1.94	1.98
Other revenues	0.17	0.13	0.05	0.05	0.05
Other operating income	0.06	0.74	0.19	0.20	0.20
Cost of materials	-2.29	-3.89	-3.76	-3.64	-3.68
Gross profit	2.79	3.93	5.23	8.11	10.91
Personnel expenses	-1.05	-1.33	-1.35	-1.32	-1.33
Depreciation	-0.70	-0.07	-0.10	-0.10	-0.10
Other operating expenses	-1.73	-1.55	-1.60	-1.60	-1.60
EBIT	-0.69	0.98	2.18	5.09	7.88
Financial income	0.19	0.27	0.00	0.00	0.00
Financial expenses	-2.32	-2.93	-2.97	-4.13	-5.66
EBT	-2.81	-1.68	-0.79	0.96	2.22
Taxes	0.38	-0.22	0.20	-0.24	-0.56
Result for the period	-2.44	-1.90	-0.59	0.72	1.67
EBITDA	0.01	1.05	2.28	5.19	7.97
in % of sales revenue	0.2%	15.1%	26.1%	45.1%	55.6%
EBIT	-0.69	0.98	2.18	5.09	7.88
in % of sales revenue	-14.2%	14.1%	24.9%	44.2%	54.9%
Earnings per share in €	-0.14	-0.08	-0.03	0.03	0.07

Sources: Coreo AG; GBC AG

Business development 2022

in € m	FY 2019	FY 2020	FY 2021	FY 2022
Rental income	2.92	3.52	4.35	5.97
Proceeds from disposals	2.98	6.09	10.32	2.89
Valuation result	3.06	0.85	1.86	1.52
EBIT	2.50	-0.69	2.84	0.98
After-tax result	-0.86	-2.44	-0.89	-0.19

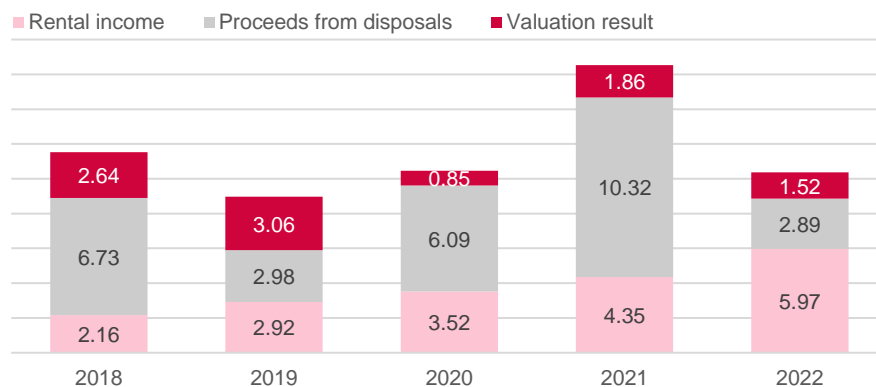
Sources: Coreo AG; GBC AG

Earnings development 2022

For Coreo AG, the past financial year 2022 was characterised by active asset management of the existing portfolio. In this regard, for example, an extensive refurbishment of a property in Kiel, conversion measures at a property in Wetzlar and a roof refurbishment of the property in Bruchsal were carried out. In contrast, there were further delays in the planned acquisition of an extensive residential and commercial property portfolio, so that no new investments were made in 2022, the first time since the start of the property-related business activity.

Nevertheless, Coreo AG recorded a significant increase in gross rental income to €5.97 million (previous year: €4.35 million). This is particularly a result of the first full-year inclusion of the properties acquired in 2021, namely the acquisition of two production sites and the administrative headquarters of an automotive supplier in July 2021, as well as a logistics property in Delmenhorst acquired in September 2021. These two transactions increased annual rental income by a total of around € 1.20 million. In addition to this effect, Coreo AG was able to achieve rent increases in the existing portfolio and reduce vacancies in refurbished properties.

Development of income components (in € million)



Sources: Coreo AG; GBC AG

The significant increase in recurring rental income was offset by a decline in proceeds from disposals to €2.89 million (previous year: €10.32 million). After Coreo AG had made extensive disposals in the 2021 financial year, the Mannheim portfolio was sold in full and some properties in the Göttingen portfolio were sold in the past 2022 financial year. However, since a write-up of the book values of the sold properties and thus the possible capital gain was anticipated in advance, the disposal result in 2022 was negative at € -0.54 million (previous year: € 1.37 million).

In particular, the optimisation of the automotive supplier portfolio acquired in 2021 and the maintenance and refurbishment measures at properties in Bruchsal and the Göttingen

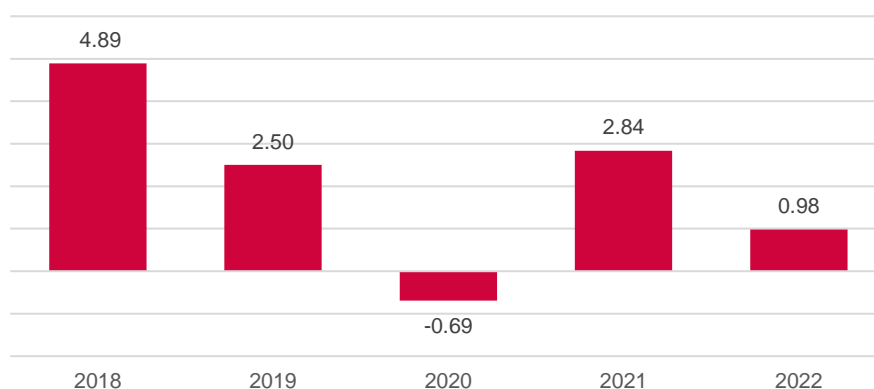
portfolio led to book value write-ups of €1.52 million (previous year: €1.86 million) as determined externally.

In total, the total income of € 10.38 million (previous year: € 16.53 million) is below the previous year due to the significantly lower proceeds from disposals. In our forecasts for 2022, we had expected total income of € 7.99 million, which was exceeded. Coreo's figures for both rental income (GBC estimate: € 5.10 million) and proceeds from disposals (GBC estimate: € 0.79 million) were above our estimates, whereas we had expected a slightly higher valuation result of € 2.10 million.

Development of results 2022

In this respect, the decline in EBIT to € 0.98 million (previous year: € 2.84 million) is understandable, but EBIT was below our expectations (GBC forecast: € 2.63 million). In addition to the decline in total income, the extensive maintenance measures, especially at the property in Bruchsal, led to an increase in the cost of materials to €3.89 million (previous year: €2.47 million), which had a negative impact on earnings. We had expected significantly lower material costs here.

Development of EBIT (in € million)

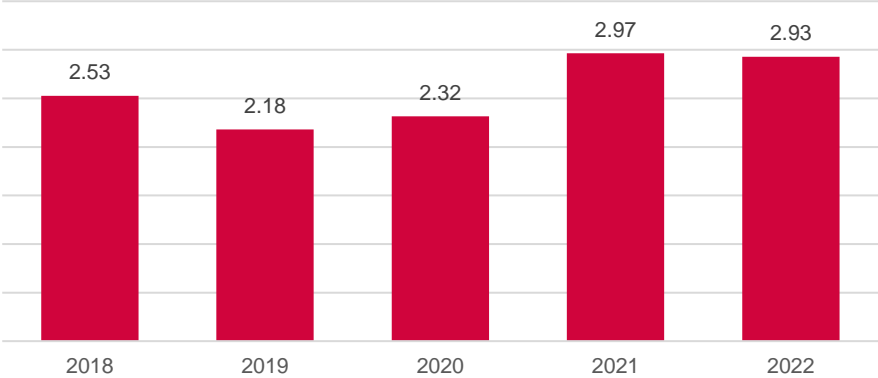


Sources: Coreo AG; GBC AG

In contrast, reversals of impairment losses on real estate inventories, i.e. development properties, had a positive effect on the development of earnings. The write-ups of € 0.54 million (previous year: € 0.13 million) led to an increase in other operating income to € 0.74 million (previous year: € 0.23 million).

The decline in EBIT described above led to a decrease in the after-tax result to € -1.90 million (previous year: € -0.89 million). As no new investments were made in the reporting period, there was only a slight increase in financial liabilities to € 69.97 million (31.12.21: € 65.69 million) and the related financial expenses of € 2.93 million (previous year: € 2.97 million) were roughly at the previous year's level. New bank loans were taken out at comparatively attractive conditions, as they are secured. According to our calculations, the newly taken out loans had an average interest rate of 2.3 %.

Financial expenses (in € million)



Sources: Coreo AG; GBC AG

In a long-term comparison, there was only a slight increase in financial expenses in relation to the trend of portfolio expansion. This is due in particular to the declining development of the average interest rate on bonds. For example, Coreo AG was able to refinance an outstanding option bond with a coupon of 10% in the 2021 financial year through an investor loan with an interest rate of 6.75%.

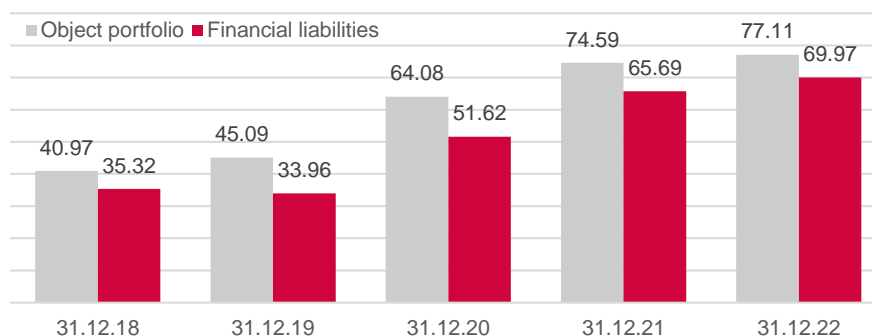
Balance sheet and financial situation

in € m	31.12.19	31.12.20	31.12.21	31.12.22
Equity	28.32	29.30	27.09	30.49
Equity ratio	42.6%	34.6%	27.8%	28.9%
Object portfolio	45.09	64.08	74.59	77.13
interest-bearing debt	33.96	51.62	65.69	69.97
LTV	75.3%	80.6%	88.1%	90.7%
Financial assets (incl. JV for St Martin Tower)	14.93	14.65	13.58	15.61
Cash and cash equivalents	5.20	3.28	7.67	10.85
Net Debt	13.83	33.69	44.45	43.50
Cash flow (operating)	-5.25	-13.80	-2.84	-3.29
Cash flow (investment)	-2.33	-7.93	-7.11	-2.46
Cash flow (financing)	-1.26	19.82	14.33	8.94

Sources: Coreo AG; GBC AG

To finance the planned real estate investments, Coreo AG successfully completed a capital increase of € 5.51 million in May 2022. As a result, equity climbed to € 30.49 million (31.12.21: € 27.09 million) despite the negative after-tax result. However, the equity ratio of 28.9 % (31.12.21: 27.8 %) remained below the 30 % mark due to an extension of the balance sheet. On the assets side, the increase in the balance sheet total is primarily related to the rise in the property portfolio to € 77.13 million (31.12.21: € 74.59 million), which primarily reflects the higher valuation of the investment properties and the development properties. At the same time, on the assets side, financial assets climbed to € 15.61 million (31.12.21: € 13.58 million), primarily due to the down payment for an acquisition of a residential property portfolio in Rostock/Hagen planned for 2023. Financial assets largely include the 10.1% stake in Publity St. Martin Tower GmbH as well as the down payment for the pending acquisition of a large residential and commercial real estate portfolio (Spree East portfolio).

Property portfolio and financial liabilities (in € million)



Sources: Coreo AG; GBC AG

On the liabilities side, the increase in the balance sheet is related to the rise in financial liabilities to € 69.97 million (31.12.21: € 65.69 million). In relation to the property portfolio, there is an LTV of 90.7% (31.12.21: 88.1%). This high value can be explained, among other things, by the still high proportion of uninvested funds as a result of the delay in the acquisition of the extensive residential and commercial property portfolio. As a result, Coreo AG still had an extensive liquidity portfolio of € 10.85 million as of 31.12.22 (31.12.21: € 7.67 million). The net debt/object portfolio-ratio, on the other hand, is significantly below the LTV at 56.4 % (previous year: 59.6 %).

The increase in cash and cash equivalents resulted from new loans and the capital increase, which led to a financing cash flow of € 8.94 million (previous year: € 14.33 million). This offset the negative operating cash flow of € -3.29 million (previous year: € -2.84 million) and the negative investment cash flow of € -2.46 million (previous year: € -7.11 million).

With regard to the operating cash flow, Coreo AG has made progress in the past financial years, but the company still has a too low level of rental income, which is below the operating expenses and the interest expenses affecting liquidity. With the planned expansion of the portfolio, an improvement in the operating cash flow should be achieved.

FORECAST AND EVALUATION

in € m	FY 2022	FY 2023e	FY 2024e	FY 2025e
Rental income	5.97	6.53	9.56	12.36
Proceeds from disposals	2.89	0.52	0.00	0.00
Valuation result	1.52	2.22	1.94	1.98
EBIT	0.98	2.18	5.09	7.88
After-tax result	-0.19	-0.59	0.72	1.67

Source: GBC AG

Forecast basis

As in previous years, we base our revenue and earnings forecasts on the current property portfolio and on potential acquisitions and disposals. Furthermore, within the framework of the strategy communicated by the company, we also assume, to a lesser extent, possible property acquisitions outside of the currently known acquisitions.

Based on the current portfolio, Coreo's management is forecasting a slight increase in net rental income to around € 4.7 million (previous year: € 4.49 million) for the current financial year 2023. This slight increase is due to expected rent adjustments in the commercial sector as well as the reduction of vacancies, especially at the 3,624 sqm property in Wetzlar. Here, a large space was handed over to the tenant in the first quarter of 2023. In our view, this guidance does not include any further property additions that could lead to a significant increase in the rental volume. The property portfolio that is decisive for the guidance comprises the following portfolios:

Name	Area in sqm	Use
Hydra portfolio	8,444	Commercial/Living
Portfolio Bad Köstritz	6,078	Living
Portfolio Bruchsal	6,267	Commercial
Portfolio Göttingen	6,787	Living
Automotive portfolio	15,974	Commercial
Delmenhorst	31,135	Commercial
Portfolio WuBi	15,275	Living

Sources: Coreo AG; GBC AG

One possible property acquisition that is likely to have a relevant influence on the company's revenue and earnings development is the transfer of the so-called Spree East portfolio, for which a purchase agreement was already reached in 2021. According to the company's announcement at the time, the portfolio comprises a total of 1,341 flats and 15 commercial units, which would make it the largest acquisition in the history of Coreo AG. We expect the property to be added in the coming 2024 financial year.

An exclusive agreement for the purchase of a portfolio in Hagen/Rostock was also concluded in July 2022. According to company information, this is a project with a total investment volume of around € 2.5 million, for which the purchase price has already been paid. A transfer is expected from the second half of 2023.

The second revenue component, the proceeds from disposals, is expected to decline following the complete sale of the Mannheim portfolio. For the current financial year 2023, we are taking into account the sale of a property in Wormeln, the sale of which was notarised on 6 January 2023 at a price of € 0.52 million. According to our findings, this sale is likely to have had no effect on income.

In the past 2022 financial year, refurbishment and maintenance measures were carried out at the Wetzlar, Bruchsal and Delmenhorst sites. In addition, very extensive measures, including complete refurbishment, are underway in numerous properties in the Göttingen portfolio. All in all, these measures will lead to an increase in rental income and thus ultimately in the balance sheet values of these properties. We take a conservative approach here and set the possible valuation income for the coming financial years at the level of the possible renovation and maintenance expenses. This would mean that the valuation income would be offset by material expenses in the same amount, so that these would then remain neutral in terms of income.

Finally, we assume a significantly lower investment volume for the level of further possible acquisitions than in our previous research studies. Within the framework of its long-term investment planning, the company had envisaged expanding the total portfolio to € 400 to 500 million within five years by the 2021 financial year. This planning no longer seems to be the company's focus, as no statement was made on this in the 2022 annual report. With the possible acquisition of the two portfolios (Spree Ost and Hagen-Rostock), the total portfolio value could already rise significantly above € 100 million (31.12.2022: € 77.13 million) by the end of the coming financial year 2024.

For 2023, we assume no new investments apart from the planned acquisition of the Hagen/Rostock portfolio. We therefore assume new investments of € 15 million (2024) and € 25 million (2025) only from the coming financial year onwards, but proceed much more conservatively than before.

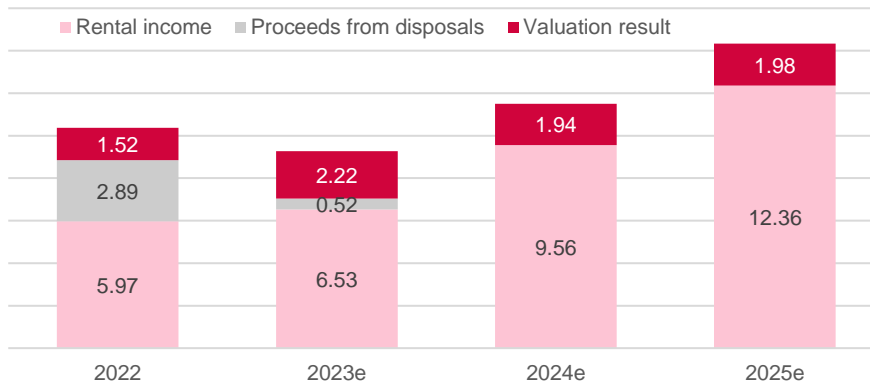
Yield forecasts 2023 - 2025

In our specific estimation period, we assume a gradual increase in rental income on the basis of the forecast described. Gross rents should increase slightly in the current financial year to € 6.53 million (previous year: € 5.96 million). On the one hand, this should include the reduction of vacancies and rent adjustments and, on the other hand, to a small extent the addition of the two new portfolios. Assuming that the acquisition of the Hagen/Rostock portfolio and the Spree East portfolio will still take place in the course of the 2023 and 2024 financial year, we calculate a visible jump in rental income to € 9.56 million from the coming 2024 financial year and then to € 12.36 million (FY 2025). The new investments we assume in the amount of € 15 million (2024) and € 25 million (2025) also make a minor contribution to the expected increase in rental income.

In contrast, the proceeds from disposals no longer play a significant role in our forecasts. For the current financial year 2023, we are only taking into account sales proceeds of € 0.52 million (previous year: € 2.89 million), which are related to the already determined sale of a property in Wormeln. We do not forecast any further disposals for the following financial years, although further property sales are very likely as part of portfolio adjustments.

Finally, the valuation result should also play a subordinate role. For the period 2023 to 2025, we assume maintenance and renovation expenses totalling € 6.15 million (including for newly acquired portfolios), which will lead to corresponding valuation income. As the renovation and maintenance expenses are included in the same amount on the cost side, the valuation result has no effect on earnings.

Forecast of income components (in € million)

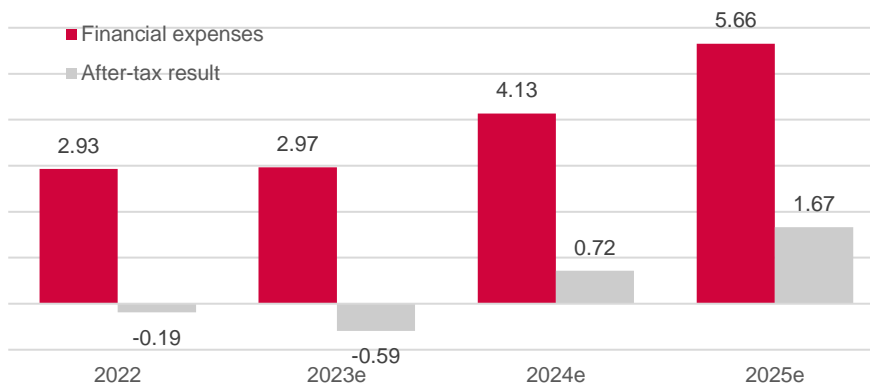


Source: GBC AG

Result forecast 2023 - 2025

According to our estimates, rental income will represent the majority of total income in the future. From the coming financial year onwards, this should for the first time exceed the level necessary to reach the break-even point in terms of the after-tax result. In addition to a comparatively constant development of personnel and administrative expenses, we have taken into account an increase in financing costs in our estimates. Together with the necessary expansion of bank liabilities, financing costs will represent the largest cost block in the future:

Financial expenses and after-tax result (in € million)



Source: GBC AG

Evaluation

Model assumptions

Coreo AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2023 to 2025 in phase 1, the forecast is made from 2026 to 2030 in the second phase by applying value drivers. We expect increases in Revenues of 7.0 % (previously: 3.5 %). We have assumed a target EBITDA margin of 66.0% (previously: 62.0%). We have taken the tax rate into account at 25.0 % in phase 2. In the third phase, a residual value is determined after the end of the forecast horizon using the perpetual annuity. In the final value, we assume a growth rate of 3.0 % (previously: 2.0 %).

Determination of the cost of capital

The weighted average cost of capital (WACC) of Coreo AG is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be calculated.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The currently used value of the risk-free interest rate is 2.00% (previously: 1.25%).

As a reasonable expectation of a market premium, we use the historical market premium of 5.50%. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.36 is currently determined (previously 1.36).

Using the assumptions made, we calculate a cost of equity of 9.46% (previously: 8.71%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the cost of equity of 40% (previously: 60%), we arrive at a weighted average cost of capital (WACC) of 6.09% (previously 6.94%).

Valuation result

Within the framework of our DCF valuation model, we have determined a new target price of € 1.30 (previously: € 1.85). Compared to our previous valuation, we have made a significant forecast adjustment. On the one hand, we expect a slower build-up of the portfolio. On the other hand, rental income takes on a higher significance than in our previous forecasts. This is accompanied by lower revenues compared to the trading business, but at the same time there should be higher profitability. The weighting of capital costs is also shifting towards debt capital, which has led to a reduction in the WACC.

DCF model

Coreo AG - Discounted Cashflow (DCF) model

Value driver used in the DCF-model's estimate phase:

consistency - phase		final - phase	
Revenue growth	7.0%	Perpetual growth rate	3.0%
EBITDA-margin	66.0%	Perpetual EBITA margin	70.1%
Depreciation on fixed assets	0.1%	Effective tax rate in terminal value	25.0%
Working capital to sales	75.0%		

Three-phase DCF - model:

Phase in mEUR	estimate			consistency					final
	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	FY 30e	TV
Revenue (RE)	8.75	11.50	14.34	15.35	16.42	17.57	18.80	20.12	
Revenue change	25.9%	31.5%	24.7%	7.0%	7.0%	7.0%	7.0%	7.0%	3.0%
Revenue to fixed assets	0.13	0.09	0.09	0.10	0.10	0.11	0.12	0.13	
EBITDA	2.28	5.19	7.98	10.13	10.84	11.60	12.41	13.28	
EBITDA-margin	26.1%	45.1%	55.6%	66.0%	66.0%	66.0%	66.0%	66.0%	
EBITA	2.18	5.09	7.88	10.03	10.74	11.49	12.31	13.17	
EBITA-margin	24.9%	44.2%	54.9%	65.3%	65.4%	65.4%	65.5%	65.5%	70.1%
Taxes on EBITA	-0.55	-1.27	-1.97	-2.51	-2.68	-2.87	-3.08	-3.29	
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBI (NOPLAT)	1.64	3.82	5.91	7.52	8.05	8.62	9.23	9.88	
Return on Capital	2.1%	5.0%	4.2%	4.5%	4.8%	5.1%	5.4%	5.7%	6.3%
Working Capital (WC)	10.10	10.50	11.00	11.51	12.32	13.18	14.10	15.09	
WC to sales	115.5%	91.3%	76.7%	75.0%	75.0%	75.0%	75.0%	75.0%	
Investment in WC	0.13	-0.40	-0.50	-0.51	-0.81	-0.86	-0.92	-0.99	
Operating fixed assets (OFA)	66.02	130.02	155.02	156.52	157.02	157.52	158.02	158.52	
Depreciation on OFA	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	
Depreciation to OFA	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	
CAPEX	0.20	-64.10	-25.10	-1.60	-0.60	-0.60	-0.60	-0.60	
Capital Employed	76.12	140.52	166.02	168.03	169.34	170.70	172.12	173.61	
EBITDA	2.28	5.19	7.98	10.13	10.84	11.60	12.41	13.28	
Taxes on EBITA	-0.55	-1.27	-1.97	-2.51	-2.68	-2.87	-3.08	-3.29	
Total Investment	0.33	-64.50	-25.60	-2.11	-1.41	-1.46	-1.52	-1.59	
Investment in OFA	0.20	-64.10	-25.10	-1.60	-0.60	-0.60	-0.60	-0.60	
Investment in WC	0.13	-0.40	-0.50	-0.51	-0.81	-0.86	-0.92	-0.99	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	2.06	-60.58	-19.59	5.51	6.75	7.26	7.81	8.39	183.84

Value operating business (due date)	73.41	138.47
Net present value explicit free Cashflows	-48.14	9.51
Net present value of terminal value	121.56	128.96
Net debt	44.41	109.12
Value of equity	29.01	29.34
Minority interests	-0.04	-0.04
Value of share capital	28.97	29.30
Outstanding shares in m	22.55	22.55
Fair value per share in €	1.28	1.30

Cost of Capital:

Risk free rate	2.0%
Market risk premium	5.5%
Beta	1.36
Cost of equity	9.5%
Target weight	40.0%
Cost of debt	4.5%
Target weight	60.0%
Taxshield	14.7%
WACC	6.1%

Return on Capital	WACC				
	5.9%	6.0%	6.1%	6.2%	6.3%
6.1%	1.39	1.16	0.95	0.75	0.57
6.2%	1.58	1.34	1.12	0.92	0.73
6.3%	1.76	1.52	1.30	1.09	0.89
6.4%	1.95	1.71	1.47	1.26	1.05
6.5%	2.14	1.89	1.65	1.43	1.22

APPENDIX

I.

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2. The research report is simultaneously made available to all interested investment services companies.

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HOLD	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $> - 10\%$ and $< + 10\%$.
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