GBC AG Investment Research

publity AG*5a, 11

Rating: Hold
Target price: €17.00
(previously: €20.00)

current price: €18.50
13.11.23 11:02 / Xetra

Key data:

ISIN: DE0006972508
WKN: 697250
Stock exchange symbol: PBY
Number of shares³: 14.88
Market cap³: 275.21
Enterprise value³: 454.60
in € million / in € million

Free float: 7.0%

market segment:
Scale

Accounting standard:
HGB

Designated Sponsors:
mwb fairtrade Wertpapierhandelsbank AG

Financial year: 31.12.

Analysts:

Matthias Greiffenberger
greiffenberger@gbc-ag.de

Marcel Schaffer
schaffer@gbc-ag.de

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German version: 13.11.2023 (11:30)
Validity of the price target: until max. 31.12.2024

* Catalog of possible conflicts of interest on page 10

Company profile

Industry: real estate

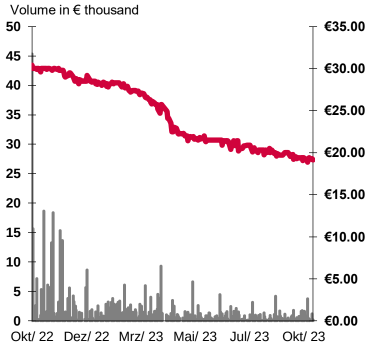
Focus: asset management

Employees: 18.75 ⌀ as at 31.12.2022

Foundation: 1999

Company headquarters: Frankfurt am Main

Management: Frank Schneider, Stephan Kunath



publity AG stands out as a premier green asset manager specializing in office properties within Germany. What sets publity apart is its unique blend of extensive experience, a dedicated focus on sustainable, ESG-compliant properties, and a wealth of real estate expertise derived from over 1,100 successful transactions. The company adopts a comprehensive approach to the development and transformation of ESG-compliant real estate, considering environmental factors, innovative design for workspaces, and a significant emphasis on digitalization. The office properties under publity's management have garnered multiple international certifications attesting to their high ESG standards. Renowned for its commitment to sustainability, publity is a leading force in the German office real estate market. The company leverages a robust network and excels in the digitization of data related to its German office real estate portfolio and individual properties.

P&L in € million \ End of FY	31.12.2022	31.12.2023e	31.12.2024e	31.12.2025e
Revenue	4.68	11.50	15.00	20.10
EBITDA	-23.44	0.86	3.88	7.20
EBIT	-23.99	0.30	3.32	6.64
Net income	-192.54	0.28	2.39	4.71

Key figures				
Earnings per share	-12.94	0.02	0.16	0.32
Dividend per share	0.00	0.00	0.00	0.00

Key figures				
EV/revenue	97.06	39.53	30.31	22.62
EV/EBITDA	-19.39	529.76	117.25	63.14
EV/EBIT	-18.95	1495.47	137.03	68.52
KGV	-1.43	997.29	115.37	58.46
KBV	0.74			

Financial dates
27 - 29.11.2023 Eigenkapitalforum

**Latest research from GBC:
Date: Publication / Target price in € / Rating
31.07.2023: RS / €20.00 / HOLD
04.11.2022: RS / €46.50 / BUY
** The research reports listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany

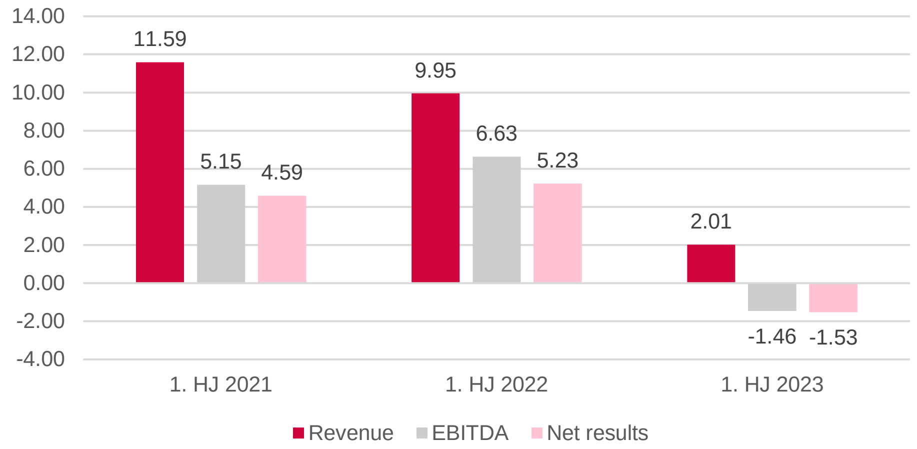
Business performance in H1 20 2 3

P&L (in € million)	1ST HY 2021	1ST HY 2022	1ST HY 2023
Revenue	11.59	9.95	2.01
EBITDA	5.15	6.63	-1.46
EBITDA margin	*44.5%*	*66.6%*	*-72.9%*
EBIT	5.02	6.35	-1.73
EBIT margin	*43.3%*	*63.8%*	*-86.3%*
Net result	4.59	5.23	-1.53
EPS in €	0.31	0.35	-0.10

Sources: publity AG, GBC AG

The business trajectory in the first half of 2023 reflects noteworthy advancements for publity AG despite prevailing challenges in the real estate industry. However, revenues experienced a substantial downturn, decreasing to €2.01 million in the first half of 2023 (compared to €9.95 million in the previous year). These revenues were generated through publity's successful transactions as an asset manager.

Development of revenue, EBITDA and net income (in € million)



Sources: publity AG, GBC AG

The significant dip in revenue consequently led to a decline in EBITDA to €-1.46 million (compared to €6.63 million in the previous year). On a positive note, other operating income had a notable impact, reaching €1.02 million (a significant increase from €0.03 million in the previous year), primarily stemming from a legal dispute. Overall, operating costs remained predominantly stable, with marginal adjustments in the cost of materials (-2.0%) and a slight uptick in personnel expenses (+3.3%). Conversely, other operating expenses rose to €3.43 million (compared to €2.31 million in the previous year) due to partial revenue from the PREOS convertible bond, transacted below the original price. Adjusted for this effect, costs actually experienced a reduction.

Income from other securities witnessed a 14.5% decline to €2.95 million (compared to €3.45 million) owing to the diminished volume of PREOS Global Office Real Estate & Technology AG bonds on the balance sheet. Furthermore, interest and similar expenses increased by 17.7% to €-2.74 million (compared to €-2.33 million) due to the augmentation of the publity bond, issued in the second half of 2022, by €20 million to €97.76 million (compared to €77.76 million in the previous year).

The sharp decrease in revenue resulted in a negative net result of €-1.53 million (compared to €5.23 million in the previous year).

Balance sheet and financial situation as at 30.06.202 3

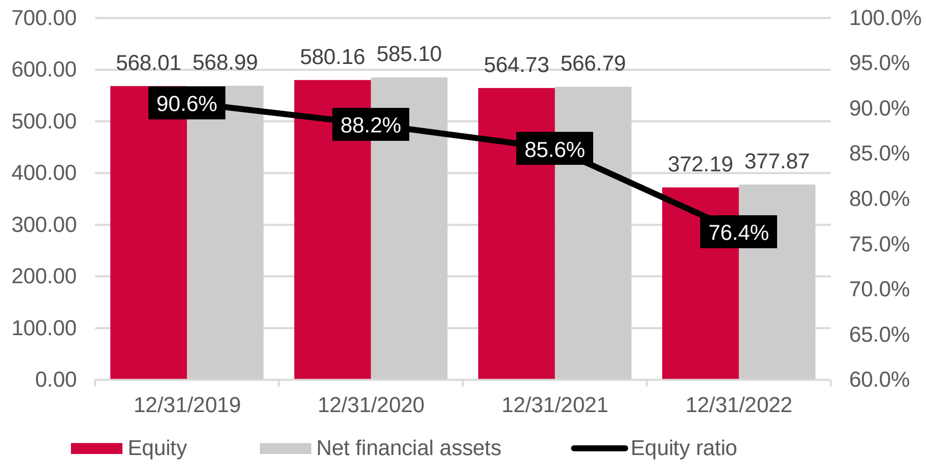
in € million	31.12.2019	31.12.2020	31.12.2021	31.12.2022	30.06.2023
Equity	568.01	580.16	564.73	372.19	370.66
Equity ratio (in %)	90.6%	88.2%	85.6%	76.4%	76.2%
Operating fixed assets	0.35	1.52	1.27	0.76	0.49
Working capital	8.80	3.83	0.55	-0.19	3.39
Net financial assets	568.99	585.10	566.79	377.87	374.81

Sources: publity AG; GBC AG

publity's financial statement mirrors a typical profile for investment companies, marked by a substantial level of financial assets, notably the shares held in PREOS constituting the majority. Despite the impressive equity interest of 94.3%, these shares in the subsidiary are not fully consolidated but are acknowledged as financial assets. The absence of full consolidation means that the liabilities of the real estate companies GORE and PREOS are not entirely reflected, contributing to publity AG consistently maintaining an above-average equity ratio. Variations in equity stem from both operational business dynamics and the appreciation or depreciation of financial assets. As of June 30, 2023, there was no extensive revaluation of financial assets.

As of June 30, 2023, equity remained nearly unchanged at €370.66 million (compared to €372.19 million on December 31, 2022), primarily influenced by an annual loss of €1.53 million. Consequently, the equity ratio also held steady at 76.2% (compared to 76.4% on December 31, 2022).

Development of equity (in € million), net financial assets (in € million) and the equity ratio (in %)



Sources: publity AG; GBC AG

publity AG's balance sheet prominently features investments in affiliated companies, amounting to €367.3 million (compared to €366.94 million on December 31, 2022), constituting 75.5% of total assets (compared to 75.3% on December 31, 2022). Additionally, publity AG holds bonds from PREOS Global Office Real Estate & Technology AG valued at €81.0 million (compared to €83.98 million on December 31, 2021). These financial assets are encompassed in the net financial assets, totaling €374.81 million (compared to €377.87 million on December 31, 2022).

The primary component of debt capital is an outstanding publity bond valued at €97.76 million (unchanged from December 31, 2022). This bond matures in 2027, and its terms were adjusted at the end of 2022, including an extension of the term to 19.12.2027 (originally 19.06.2023), an interest rate increase from 5.5% to 6.25% from 19.06.2023, and the introduction of an option for early repayment. As of October 18, 2023, the bond is trading at 28.0% on Tradegate at 15:34. The extension of the publity bond is potentially subject to challenge by bondholders.

Liabilities to banks remain steady at €4.3 million (unchanged from December 31, 2022), and cash and cash equivalents amount to €0.38 million (compared to €0.54 million on December 31, 2022). The management perceives the liquidity situation as stable. Working capital has significantly increased to €3.39 million, compared to €-0.19 million as of December 31, 2022, primarily attributed to the rise in trade receivables to €4.35 million from €1.16 million as of December 31, 2022. This increase is presumed to be a response to the current challenging situation in the real estate industry, potentially leading customers to exhaust their payment terms.

Due to the absence of a published cash flow statement, a more comprehensive liquidity analysis is currently unfeasible.

On August 16, 2023, the Annual General Meeting sanctioned a capital increase from company funds, proposing an augmentation of share capital from €14.88 million to €16.74 million, involving the issuance of 1.86 million new no-par value shares with a nominal value of €1.00 each. However, the finalization of the capital increase is still pending.

Current developments in shareholdings and investments

As of December 30, 2022, the share price for the investment in PREOS Global Office Real Estate & Technology AG was €3.40 (Xetra), representing a market capitalization of €385.79 million. Considering publity AG's substantial 94.3% shareholding, the reported value of the held share capital in publity's balance sheet was €363.8 million. However, the PREOS share price has experienced a significant decline since December 30, 2022, currently standing at €0.41 (XETRA, October 23, 2023). This decline poses a notable valuation discount affecting earnings. **In our revaluation, we do not rely on the current PREOS share price; instead, we utilize the published equity of PREOS Global Office Real Estate & Technology AG, which amounted to €203.56 million as of December 31, 2022, as a conservative lower limit. Corresponding to the 94.3% shareholding ratio, this equates to a value of €191.96 million.**

As of June 30, 2022, loans to affiliated companies stood at €81.0 million. These loans are in the form of convertible bonds issued by PREOS Global Office Real Estate & Technology AG in 2019 and maturing in 2024. The current price of the convertible bond is 1.26% (Frankfurt, October 19, 2023). Klaus Nieding, lawyer and Vice President of Deutsche Schutzvereinigung für Wertpapierbesitz, has been appointed as the contact person for the bondholders. The next step involves engaging in discussions with the joint representative to explore potential restructuring options for the PREOS convertible bond. **Given the considerable potential for the convertible bond to be written down, we have initially assumed a 50% impairment in our valuation.**

FORECAST AND VALUATION

P&L (in € million)	FY 2022	FY 2023e	FY 2024e	FY 2025e
Revenue	4.68	11.50	15.00	20.10
EBITDA	-23.44	0.86	3.88	7.20
EBITDA margin	*-500.5%*	*7.5%*	*25.8%*	*35.8%*
EBIT	-23.99	0.30	3.32	6.64
EBIT margin	*-512.2%*	*2.6%*	*22.1%*	*33.0%*
Net income for the year	-192.54	0.28	2.39	4.71
EPS in €	-12.94	0.02	0.16	0.32

Source: GBC AG

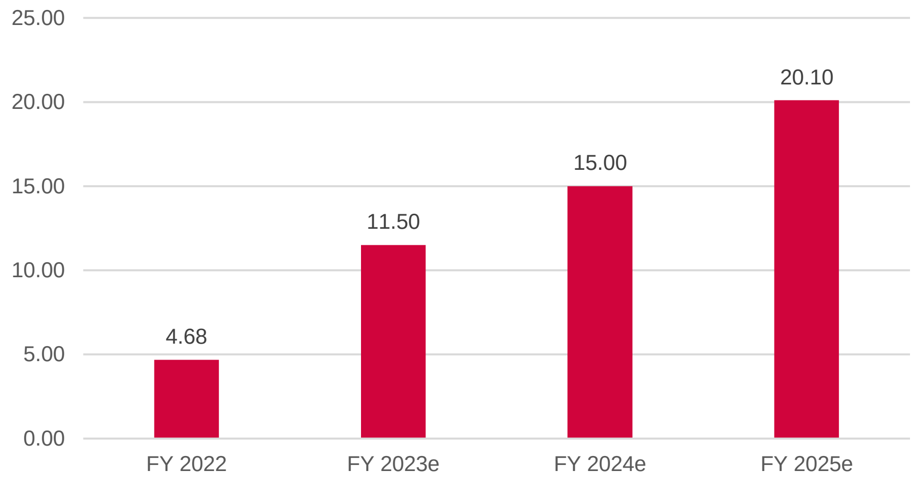
Revenue forecast

Despite facing persistent challenges such as high interest rates, increased construction costs, and uncertainties in the economic landscape within the real estate sector, the company remains optimistic about its recovery, attributing this confidence to its position as a green asset manager. In response to macroeconomic challenges and evolving trends in real estate, the company is strategically focusing on sustainable office properties. The goal is to manage at least 50% ESG-compliant buildings by 2030, with a long-term objective of achieving 100%. The approach is holistic, encompassing environmental considerations, innovative design options, and social aspects. publity AG has already secured several certifications for its properties, showcasing high ESG and digitalization standards. Additionally, there are plans to convert the Centurion Tower in Frankfurt into a green office building, serving as a model for the future of office spaces.

The corporate strategy of publity AG centers on fortifying and expanding its position as a portfolio holder in the real estate sector through its subsidiaries. The primary focus remains on the German commercial real estate market, where attractive value creation potential is identified. Leveraging its expertise in real estate asset management, publity AG aims to capitalize on the sustained demand for German commercial real estate, particularly from foreign investors.

While the impacts of the coronavirus pandemic, the conflict in Ukraine, the energy crisis, and rising interest rates on the company's economic trajectory are challenging to predict, the Management Board anticipates stabilization and positive development.

Revenue forecast in (in € million)



Source: GBC AG

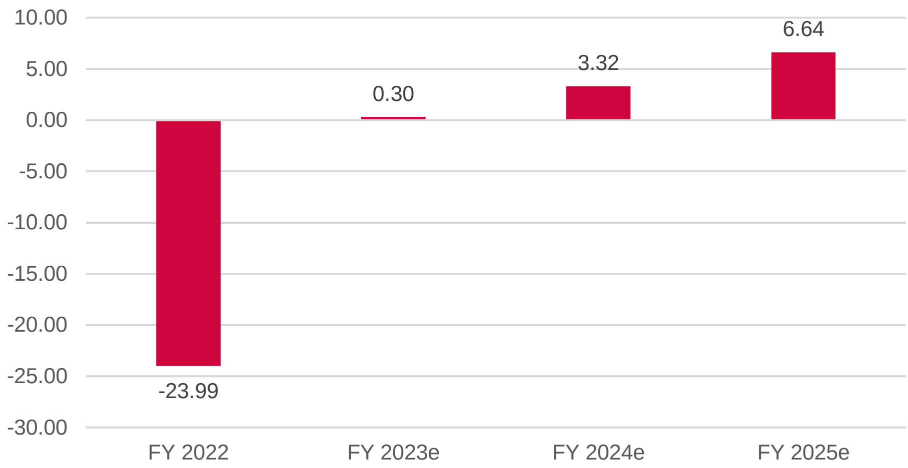
The Executive Board expects to break even after taxes in the course of the 2023 financial year, with a slightly positive EBIT forecast. In addition, the Executive Board expects to be able to meet all financial obligations in full and on time in the future.

We assume that there will be an increase in real estate transactions in the 2023 financial year compared to the previous year 2022. However, the market is currently heavily impacted by the turnaround in interest rates. For the current financial year 2023, we forecast revenue of €11.5 million, followed by €15.0 million in 2024 and €20.1 million in 2025.

Earnings forecast

In accordance with the company's guidance for the 2023 financial year, the Executive Board expects to break even after taxes and achieve a slightly positive EBIT. The company continues to respond with strict cost management in order to meet the current challenges. Our earnings forecasts do not include any potential write-downs on the financial assets held.

EBIT forecast (in € million)



Source: GBC AG

We assume that the guidance can currently be easily achieved. For the current financial year 2023, we expect EBIT of €0.3 million, followed by €3.32 million in 2024 and €6.64 million in 2025.

Overall, we expect net income of €0.28 million in the current financial year 2023, €2.39 million in 2024 and €4.71 million in 2025.

Rating

Model assumptions

publity 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 using the approach of value drivers. We expect revenue to increase by 10.0%. We have assumed an EBITDA margin target of 35.8%. We have included the tax rate of 30.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using perpetuity. In the terminal 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 publity 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 determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the IDW's Expert Committee for Business Valuations and Business Administration (FAUB). This is based on the zero bond interest rates published by the Deutsche Bundesbank using the Svensson method.

The risk-free interest rate currently used is 2.0%.

We use the historical market premium of 5.5% as a reasonable expectation of a market premium. This is supported by historical analyses of equity market returns. The market premium reflects the percentage by which the equity market is expected to outperform low-risk government bonds.

According to the GBC estimation method, the current beta is 1.86.

Using the assumptions made, we calculate a cost of equity of 12.2% (beta multiplied by the risk premium plus the risk-free interest rate). As we assume a sustainable weighting of equity costs of 90%, the weighted average cost of capital (WACC) is 11.6%.

Valuation result

As part of our DCF valuation model, we have determined a target price of € 17.00 (previously: € 20.00).

As at 30.06.2023, loans to affiliated companies amounted to € 81.0 million. These loans are in the form of PREOS Global Office Real Estate & Technology AG convertible bonds, which were issued in 2019 and are due in 2024. This convertible bond currently stands at 1.26% (Frankfurt, 19.10.2023). This means that there is considerable potential for the convertible bond to be written down. We have therefore assumed a 50% impairment of the convertible bonds in our valuation.

GBC AG Investment Research

DCF model

publity AG - Discounted cash flow (DCF) analysis

Value drivers of the DCF model after the estimate phase:

consistency phase	
Revenue growth	10.0%
EBITDA margin	35.8%
AFA to operating fixed assets	15.0%
Working capital to revenue	5.0%

final - Phase	
Perpetual revenue growth	3.0%
Perpetual EBITA margin	35.3%
Effective tax rate in the terminal value	30.0%

three-stage DCF model:

Phase	estimate		consistency						final
in EUR million	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	GJ 30e	Final value
Revenue (US)	11.50	15.00	20.10	22.11	24.32	26.75	29.43	32.37	
US change	145.5%	30.4%	34.0%	10.0%	10.0%	10.0%	10.0%	10.0%	3.0%
US to operating fixed assets	15.01	19.32	24.54	25.59	26.68	27.82	29.00	30.24	
EBITDA	0.86	3.88	7.20	7.92	8.71	9.58	10.54	11.60	
EBITDA margin	7.5%	25.8%	35.8%	35.8%	35.8%	35.8%	35.8%	35.8%	
EBITA	0.30	3.32	6.64	7.80	8.58	9.45	10.40	11.44	
EBITA margin	2.6%	22.1%	33.0%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%
Taxes on EBITA	-0.09	-1.00	-1.99	-2.34	-2.57	-2.83	-3.12	-3.43	
to EBITA	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	0.21	2.32	4.64	5.46	6.01	6.61	7.28	8.01	
Return on capital	37.5%	370.5%	707.1%	738.1%	305.0%	310.8%	316.5%	322.2%	306.8%
Working capital (WC)	-0.14	-0.12	-0.08	1.11	1.22	1.34	1.47	1.62	
WC to revenue	-1.2%	-0.8%	-0.4%	5.0%	5.0%	5.0%	5.0%	5.0%	
Investments in WC	-0.05	-0.02	-0.04	-1.19	-0.11	-0.12	-0.13	-0.15	
Operating assets (OAV)	0.77	0.78	0.82	0.86	0.91	0.96	1.01	1.07	
AFA on OAV	-0.55	-0.56	-0.57	-0.12	-0.13	-0.14	-0.14	-0.15	
AFA to OAV	72.3%	72.1%	69.0%	15.0%	15.0%	15.0%	15.0%	15.0%	
Investments in OAV	-0.56	-0.57	-0.61	-0.17	-0.18	-0.19	-0.20	-0.21	
Invested capital	0.63	0.66	0.74	1.97	2.13	2.30	2.49	2.69	
EBITDA	0.86	3.88	7.20	7.92	8.71	9.58	10.54	11.60	
Taxes on EBITA	-0.09	-1.00	-1.99	-2.34	-2.57	-2.83	-3.12	-3.43	
Total investments	-0.61	-0.59	-0.65	-1.35	-0.29	-0.31	-0.33	-0.36	
Investments in OAV	-0.56	-0.57	-0.61	-0.17	-0.18	-0.19	-0.20	-0.21	
Investments in WC	-0.05	-0.02	-0.04	-1.19	-0.11	-0.12	-0.13	-0.15	
Investments in goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cash flows	0.15	2.29	4.56	4.23	5.85	6.44	7.09	7.81	95.39

Value of operating business (reporting date)	67.92	73.48
Present value of explicit FCFs	23.57	24.01
Present value of the continuing value	44.34	49.47
Net debt	-177.00	-179.39
Value of equity	244.92	252.86
Minority interests	0.00	0.00
Value of the share capital	244.92	252.86
Outstanding shares in € million	14.88	14.88
Fair value of the share in EUR	16.46	**17.00**

Determination of the cost of capital:

Risk-free return	2.0%
Market risk premium	5.5%
Beta	1.86
Cost of equity	12.2%
Target weighting	90.0%
Borrowing costs	6.3%
Target weighting	10.0%
Tax shield	8.5%
WACC	**11.6%**

Return on capital	WACC				
	11.0%	**11.3%**	**11.6%**	**11.9%**	**12.2%**
306.3%	17.36	17.17	16.99	16.83	16.68
306.6%	17.36	17.17	16.99	16.83	16.68
306.8%	17.37	17.17	**17.00**	16.83	16.68
307.1%	17.37	17.18	17.00	16.84	16.68
307.3%	17.37	17.18	17.00	16.84	16.69

APPENDIX

I.
Research under MiFID II
1. there is an agreement between the research company GBC AG and the Issuer regarding the independent preparation and publication of this research report on the Issuer. GBC AG shall be remunerated for this by the Issuer.
2. the research report shall be made available simultaneously to all investment service providers interested therein.

II.
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§ 2 (I) Updating:
A concrete update of the present analysis(es) at a fixed date has not yet been scheduled. GBC AG reserves the right to update the analysis without prior notice.

§ 2 (II) Recommendation/ Ratings/ Classification:
Since 1 July 2006, GBC AG has used a three-level absolute share rating system. Since 1.7.2000, the ratings have been based on a time horizon of at least six to a maximum of 18 months. Previously, the ratings were based on a time horizon of up to 12 months. When the analysis is published, the investment recommendations are determined by reference to the expected return in accordance with the ratings described below. Temporary price deviations outside of these ranges do not automatically lead to a change of rating but do give rise to a revision of the original recommendation.

The respective recommendations/classifications/ ratings are associated with the following expectations:

BUY	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is >= + 10%.
HOLD	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is > - 10% and < + 10%.
SELL	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is <= - 10%.

Price targets of GBC AG are determined on the basis of the fair value per share, which is determined on the basis of generally accepted and widely used methods of fundamental analysis, such as the DCF method, peer-group comparison and/or the sum-of-the-parts method. This is done by taking into account fundamental factors such as stock splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

§ 2 (III) Historical recommendations:
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§ 2 (IV) Information base:
For the preparation of the present analysis(es), publicly available information about the issuer(s), (where available, the three most recently published annual and quarterly reports, ad-hoc announcements, press releases, securities prospectus, company presentations, etc.), which GBC believes to be reliable, has been used. In addition, discussions were held with the management of the company(ies) in question in order to have the facts relating to the business development explained in more detail.

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GBC AG and the responsible analyst hereby declare that the following potential conflicts of interest for which the company(ies) named in the analysis exist at the time of publication and therefore comply with the obligations of § 85 WpHG and Art. 20 MAR. An exact explanation of the possible conflicts of interest is provided in the catalogue of possible conflicts of interest under § 2 (V) 2.

The following potential conflict of interest exists with respect to the securities or financial instruments discussed in the analysis: (5a,11)

§ Section 2 (V) 2. catalogue of possible conflicts of interest:
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(2) This company holds more than 3% of the shares in GBC AG or a legal entity affiliated with it.
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The analysts responsible for this analysis are
Matthias Greiffenberger, M.Sc., M.A., Financial Analyst
Marcel Schaffer, Financial Analyst

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GBC AG
Halderstrasse 27
D 86150 Augsburg
Phone: 0821/24 11 33-0
Fax: 0821/24 11 33-30
Internet: http://www.gbc-ag.de

E-Mail: compliance@gbc-ag.de

GBC AG ®

- 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
Phone: ++49 (0)821/241133-0
Email: office@gbc-ag.de