GBC AG Investment Research

# Coreo AG*5a,6a,11

**BUY**
**Target price: 1.00 EUR**
**(previously: 1.30 EUR)**

Current share price: € 0.24
16.11.22 / XETRA; 5:36 pm
Currency: EUR

**Key data:**

ISIN: DE000A0B9VV6
WKN: A0B9VV
Ticker symbol: CORE
Number of shares³: 22.55
Market cap³: 5.41
EnterpriseValue³: 52.69
³ in million / in EUR million

Transparency level:
Open Market
Market segment:
Open Market

Accounting:
IFRS

Financial year: 31.12.

**Analysts:**

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* Catalogue of possible conflicts of interest on page 8

Date and time completion (german): 17.11.23 (07:55 am)
Date and time first distribution (german): 17.11.23 (10:30 am)
Date and time completion (english): 20.11.23 (08:02 am)
Date and time first distribution (english): 20.11.23 (10:00 am)

Validity of the price target: until max. 31.12.2024

**Company profile**

Industry: Real estate

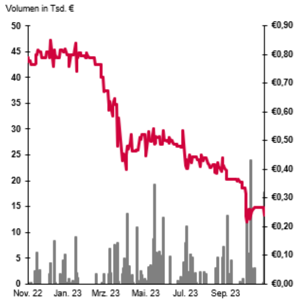
Focus: Commercial and residential real estate

Employees : 14 (30.06.2023)

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 real estate portfolio through the 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 | 8.55 | 10.16 | 14.06 |
| EBITDA | 1.05 | -0.02 | 3.85 | 7.77 |
| EBIT | 0.98 | -0.12 | 3.75 | 7.67 |
| Net profit for the year | -1.90 | -2.29 | -0.24 | 1.56 |
| **Key figures in EUR** | | | | |
| Earnings per share | -0.08 | -0.10 | -0.01 | 0.07 |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 |
| **Key figures** | | | | |
| EV/total earnings | 5.08 | 6.16 | 5.18 | 3.75 |
| EV/EBITDA | 50.18 | neg. | 13.70 | 6.78 |
| EV/EBIT | 53.71 | neg. | 14.07 | 6.87 |
| KGV | neg. | neg. | neg. | 3.47 |
| KBV | 0.18 | | | |

| Financial dates |
|---|
| - |

| **last research from GBC: |
|---|
| Date: Publication / Target price in EUR / Rating |
| 14.07.2023: RS / 1.30 / BUY |
| 26.10.2022: RS / 1.85 / BUY |
| 30.05.2022: RS / 2.15 / BUY |
| 04.10.2021: 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. |

**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"**

## H1 2023: Large portfolio acquisitions to come in 2024; EBIT break-even expected in 2024; price target: € 1.00; rating: BUY

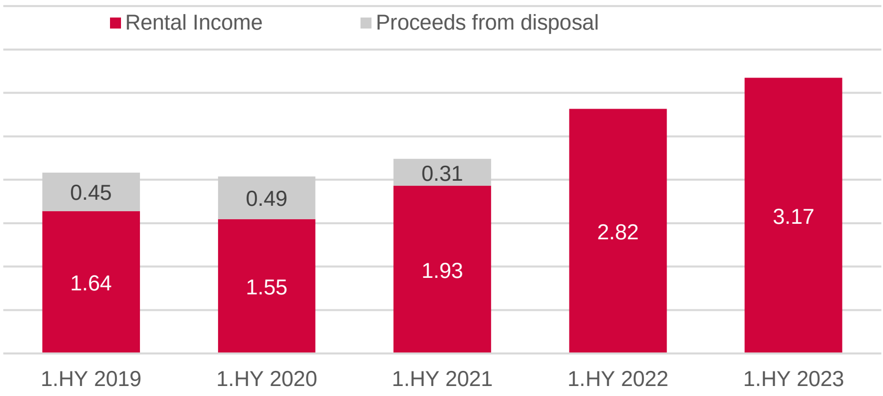
| in € m | 1.HY 2020 | 1.HY 2021 | 1.HY 2022 | 1.HY 2023 |
|---|---|---|---|---|
| Rental income | 1.55 | 1.93 | 2.82 | 3.17 |
| Proceeds from disposals | 0.49 | 0.31 | 0.00 | 0.00 |
| Valuation result | 0.00 | 0.78 | -0.53 | -0.61 |
| EBIT | -0.10 | 0.50 | -0.61 | -0.44 |
| After-tax result | -0.74 | -0.81 | -1.96 | -1.75 |

*Sources: Coreo AG; GBC AG*

## Turnover and earnings development in the first half of 2023

In the first six months of 2023, Coreo AG was able to increase rental income to € 3.17 million (previous year: € 2.82 million). As there were no property additions in both the 2022 financial year and the current 2023 financial year, the 12.7% increase in gross rental income was achieved on the same property basis. Portfolio optimisations carried out, such as the property handover in Kiel in the past 2022 financial year or the conclusion of a long-term rental agreement with the city of Wetzlar, have increased the revenue base, from which Coreo AG benefited in the first half of 2023. In addition, vacancies were already reduced in the past financial year and rent increases were implemented in some cases. However, part of the increase in gross rents is also due to the current market-related rise in ancillary costs, which resulted in a significant increase in advance operating cost payments of 44.1% to € 0.84 million (previous year: € 0.59 million).

**Components of income in the first six months (in € million)**




*Sources: Coreo AG; GBC AG*

Coreo AG's earnings in the first six months, as in the same period of the previous year, are made up exclusively of rental income. Although the sale of properties from the Mannheim and Göttingen portfolios generated a small amount of disposal proceeds of € 0.52 million in the first half of 2023, these were offset by a book value disposal of the same amount, so that the disposal result is balanced. The carrying amounts of these transactions had already been adjusted in previous periods to the disposal price known in advance, so that the losses realised were anticipated.

In accordance with this procedure, a book value adjustment of € 0.61 million was recognised in profit or loss for the sale of the 119 residential units of the Hagenweg property in Göttingen after the reporting date of 30 June 2023. This is the amount of the book loss from this transaction, which has already been recognised in the 2023 half-year figures.

Total operating costs of € 3.10 million (previous year: € 3.04 million) remained roughly at the previous year's level. Within costs, the cost of materials in particular increased to € 1.79 million (previous year: € 1.29 million). This was partly due to higher ancillary operating costs and partly due to maintenance and modernisation expenses, which relate in particular to the properties in Wetzlar, Delmenhorst and Göttingen. However, the increase in the cost of materials was offset by a decrease in personnel expenses and other operating expenses (including lower legal and consulting costs). At € -0.44 million (previous year: € -0.61 million), EBIT in the first six months of 2023 was therefore also higher than the previous year's figure.

As expected, earnings after taxes were also negative at € -1.75 million (previous year: € -1.96 million). At € 1.48 million (previous year: € 1.48 million), financial expenses were at the previous year's level. As no new investments were made, financial liabilities increased only slightly compared to the previous year to € 70.40 million (30/06/2022: € 67.86 million). Possible interest rate increase effects are limited due to the predominantly long-term maturity structure.

## Forecasts and model assumptions

| in € m | FY 2022 | FY 23e (old) | FY 23e (new) | FY 24e (old) | FY 24e (new) | FY 25e (old) | FY 25e (new) |
|---|---|---|---|---|---|---|---|
| Rental income | 5.97 | 6.53 | 6.12 | 9.56 | 8.22 | 12.36 | 12.15 |
| Proceeds from disposals | 2.89 | 0.52 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Valuation result | 1.52 | 2.22 | 0.11 | 1.94 | 1.95 | 1.98 | 1.91 |
| EBIT | 0.98 | 2.18 | -0.12 | 5.09 | 3.75 | 7.88 | 7.67 |
| After-tax result | -0.19 | -0.59 | -2.29 | 0.72 | -0.24 | 1.67 | 1.56 |

*Source: GBC AG*

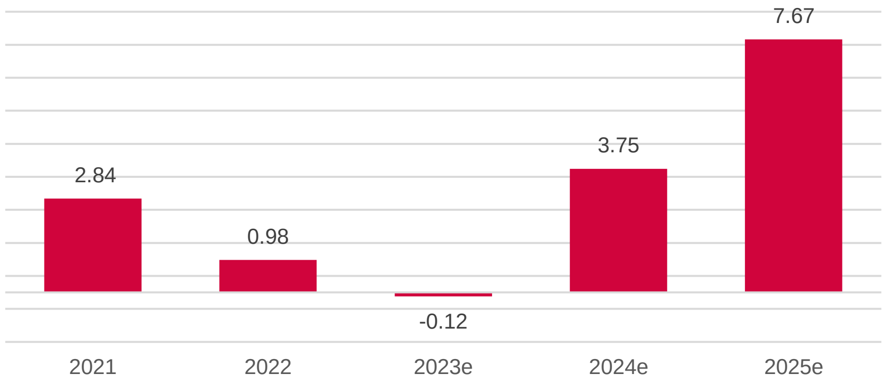
We have prepared our forecasts on the basis of the current property portfolio. In addition, we also assume property acquisitions for the coming financial years, which will both have an impact on the company's rental income and, as part of the value-creating strategy, result in possible valuation income.

In the first six months of 2023, Coreo AG generated gross rental income of € 3.17 million. With the exception of the sale of the 119 residential units in the "Hagenweg" property, the property portfolio is unchanged for the second half of 2023, meaning that comparable gross rental income is likely to be generated in the second half of the year. The loss of rental income from "Hagenweg" of around € 0.20 million (GBC estimate) will be limited, as this will not occur until the fourth quarter of 2023. Compared to our previous forecast (see forecast dated 14 July 2023), we are nevertheless adjusting the expected rental income slightly more to € 6.12 million (previously: € 6.53 million).

This adjustment is primarily due to the delay in the purchase of the Hagen/Rostock portfolio, for which the purchase price (total investment volume: € 2.5 million) has already been finalised. We had previously expected to acquire the property in the second half of 2023. As things stand, however, the property will not be acquired until the coming financial year. In addition, the transfer of the Spree-Ost portfolio, for which a purchase agreement has been in place since 2021, is planned for the coming 2024 financial year. This portfolio comprises 1,341 flats and 15 commercial units and, as the largest acquisition in Coreo's history, would have a significant impact on the company's revenue and earnings performance. As a precautionary measure, we have postponed the acquisition date to the second half of 2024 (previously: first half of 2024) and are therefore also reducing the expected rental income for 2024 to € 8.22 million (previously: € 9.56 million). This effect is not relevant for the 2025 financial year; the lower expected rental income of € 12.15 million (previously: € 12.36 million) expected in this financial year is solely a result of the sale of "Hagenweg".

The book loss of € 0.61 million from the sale of the properties on "Hagenweg" in Göttingen was recognised in full in the first half of 2023, meaning that no further negative effects are expected for the second half of the year. In our previous forecasts, we did not anticipate any valuation losses; on the contrary, we assumed valuation gains due to the investments in the existing portfolio. In the updated forecast, we have taken into account both the book loss and conservatively assumed slightly lower book gains on the existing portfolio. Accordingly, the company should report a negative EBIT of € -0.12 million in the current 2023 financial year (previously: € 2.18 million). With the expected strong increase in rental income, in particular due to the addition of the two already fixed portfolios, EBIT break-even should be achieved sustainably from the coming 2024 financial year.

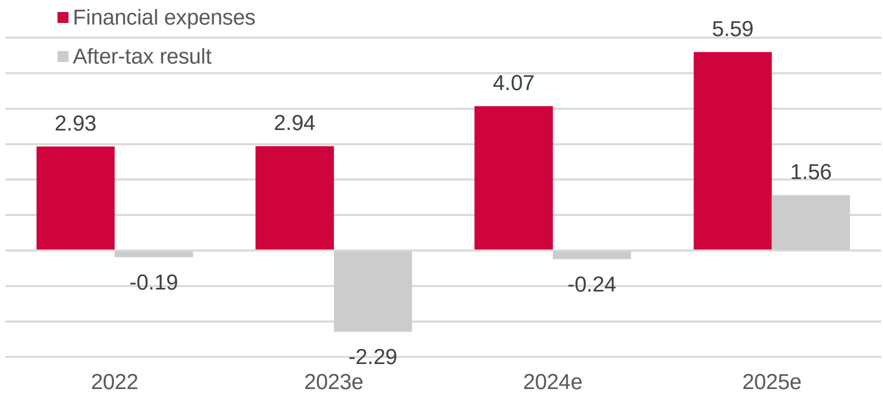
**EBIT forecasts (in €m)**




*Source: GBC AG*

According to our estimates, rental income will account for the majority of total income in future. This should exceed the required level for the first time from the 2025 financial year onwards in order to reach the break-even point at the level of earnings after taxes. We have also factored an increase in financing costs into our estimates. Together with the necessary increase in bank liabilities, financing costs will represent the largest cost block in future:

**Financing expenses and after-tax result (in €m)**




*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 revenue of 7.0 % (previously: 7.0%). We have assumed a target EBITDA margin of 66.0% (previously: 66.0%). We have taken the tax rate into account at 25.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value we assume a growth rate of 3.0% (previously: 3.0%).

### *Determining 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: 2.00 %).

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 (previously: 1.36) is currently determined.

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

### *Valuation result*

As part of our DCF valuation model, we have determined a new price target of € 1.00 (previously: € 1.30). The price target reduction is solely a consequence of the forecast adjustment. We continue to assign a BUY rating.

## Coreo AG - Discounted Cashflow (DCF) model

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

| **consistency - phase** | |
|---|---|
| Revenue growth | 7.0% |
| EBITDA-margin | 66.0% |
| Depreciation on fixed assets | 0.1% |
| Working capital to sales | 75.0% |

| **final - phase** | |
|---|---|
| Perpetual growth rate | 3.0% |
| Perpetual EBITA margin | 70.4% |
| Effective tax rate in terminal value | 25.0% |

### Three-phase DCF - model:

| **Phase** | **estimate** | | | **consistency** | | | | | **final** |
|---|---|---|---|---|---|---|---|---|---|
| in mEUR | FY 23e | FY 24e | FY 25e | FY 26e | FY 27e | FY 28e | FY 29e | FY 30e | TV |
| Revenue (RE) | 6.23 | 10.16 | 14.06 | 15.05 | 16.10 | 17.23 | 18.44 | 19.73 | |
| *Revenue change* | -10.4% | 63.2% | 38.4% | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% | 3.0% |
| *Revenue to fixed assets* | 0.09 | 0.08 | 0.09 | 0.10 | 0.10 | 0.11 | 0.12 | 0.12 | |
| EBITDA | -0.02 | 3.85 | 7.77 | 9.93 | 10.63 | 11.37 | 12.17 | 13.02 | |
| *EBITDA-margin* | -0.3% | 37.8% | 55.2% | 66.0% | 66.0% | 66.0% | 66.0% | 66.0% | |
| EBITA | -0.12 | 3.75 | 7.67 | 9.83 | 10.53 | 11.27 | 12.07 | 12.92 | |
| *EBITA-margin* | -1.9% | 36.9% | 54.5% | 65.3% | 65.4% | 65.4% | 65.4% | 65.5% | 70.4% |
| Taxes on EBITA | 0.03 | -0.94 | -1.92 | -2.46 | -2.63 | -2.82 | -3.02 | -3.23 | |
| *Tax rate* | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% |
| EBI (NOPLAT) | -0.09 | 2.81 | 5.75 | 7.37 | 7.90 | 8.45 | 9.05 | 9.69 | |
| Return on Capital | -0.1% | 3.7% | 4.1% | 4.4% | 4.7% | 5.0% | 5.3% | 5.6% | 6.2% |
| | | | | | | | | | |
| Working Capital (WC) | 10.10 | 10.50 | 11.00 | 11.29 | 12.08 | 12.92 | 13.83 | 14.79 | |
| *WC to sales* | 162.2% | 103.3% | 78.2% | 75.0% | 75.0% | 75.0% | 75.0% | 75.0% | |
| *Investment in WC* | 0.13 | -0.40 | -0.50 | -0.29 | -0.79 | -0.85 | -0.90 | -0.97 | |
| 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 | 167.81 | 169.10 | 170.44 | 171.85 | 173.31 | |
| | | | | | | | | | |
| EBITDA | -0.02 | 3.85 | 7.77 | 9.93 | 10.63 | 11.37 | 12.17 | 13.02 | |
| Taxes on EBITA | 0.03 | -0.94 | -1.92 | -2.46 | -2.63 | -2.82 | -3.02 | -3.23 | |
| Total Investment | 0.33 | -64.50 | -25.60 | -1.89 | -1.39 | -1.45 | -1.51 | -1.57 | |
| *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 | -0.29 | -0.79 | -0.85 | -0.90 | -0.97 | |
| *Investment in Goodwill* | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| Free Cashflows | 0.34 | -61.59 | -19.75 | 5.59 | 6.60 | 7.11 | 7.64 | 8.22 | 178.79 |

| | | |
|---|---|---|
| Value operating business (due date) | 68.59 | 134.36 |
| *Net present value explicit free Cashflows* | -49.62 | 8.95 |
| *Net present value of terminal value* | 118.22 | 125.41 |
| Net debt | 46.10 | 111.76 |
| Value of equity | 22.49 | 22.60 |
| Minority interests | -0.04 | -0.04 |
| Value of share capital | 22.45 | 22.56 |
| Outstanding shares in m | 22.55 | 22.55 |
| Fair value per share in € | 1.00 | **1.00** |

### 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%** |
|---|---|---|---|---|---|
| **6.0%** | 1.08 | 0.86 | 0.65 | 0.46 | 0.28 |
| **6.1%** | 1.26 | 1.04 | 0.83 | 0.63 | 0.44 |
| **6.2%** | 1.45 | 1.22 | **1.00** | 0.80 | 0.60 |
| **6.3%** | 1.64 | 1.40 | 1.17 | 0.96 | 0.77 |
| **6.4%** | 1.83 | 1.58 | 1.35 | 1.13 | 0.93 |

# APPENDIX

**I.**
**Research under MiFID II**
1. There is a contract between the research company GBC AG and the issuer regarding the independent preparation and publication of this research report on the issuer. GBC AG is remunerated for this by the issuer.
2. The research report is simultaneously made available to all interested investment services companies.

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**Section 2 (I) Updates**
A detailed update of the present analysis/analyses at any fixed date has not been planned at the current time. GBC AG reserves the right to update the analysis without prior notice.

**Section 2 (II) Recommendation/ Classifications/ Rating**
Since 1/7/2006 GBC AG has used a 3-level absolute share rating system. Since 1/7/2007 these ratings relate to a time horizon of a minimum of 6 to a maximum of 18 months. Previously the ratings related to a time horizon of up to 12 months. When the analysis is published, the investment recommendations are defined based on the categories described below, including reference to the expected returns. Temporary price fluctuations outside of these ranges do not automatically lead to a change in classification, but can result in a revision of the original recommendation.

**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 relevant time horizon is >= + 10%. |
| HOLD | The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is > - 10% and < + 10%. |
| SELL | The expected return, based on the calculated target price, incl. dividend payments within the relevant time horizon, is <= - 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.

**Section 2 (III) Past recommendations**

Past recommendations by GBC on the current analysis/analyses can be found on the internet at the following address:
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**Section 2 (IV) Information basis**

For the creation of the present analysis/analyses publicly available information was used about the issuer(s) (where available, the last three published annual and quarterly reports, ad hoc announcements, press releases, share prospectuses, company presentations, etc.) which GBC believes to be reliable. In addition, discussions were held with the management of the company/companies involved, for the creation of this analysis/these analyses, in order to review in more detail the information relating to business trends.

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GBC AG and the analysts concerned hereby declare that the following potential conflicts of interest exist for the company/companies described, at the time of this publication, and in so doing meet the requirements of section 85 of the Securities Trading Act (WpHG). A detailed explanation of potential conflicts of interest is also listed in the catalogue of potential conflicts of interest under section 2 (V) 2.

**In relation to the security or financial instrument discussed in this analysis the following possible conflict of interest exists: (5a,6a,11)**

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