

# PREOS Global Office Real Estate & Technology AG

Germany / Real Estate

Xetra

Bloomberg: PAG GR

ISIN: DE000A2LQ850

Update

**RATING UNDER REVIEW****PRICE TARGET SUSPENDED**

Return Potential n.a.

Risk Rating n.a.

## PLACING UNDER REVIEW ON LOW VISIBILITY

PREOS grew its portfolio significantly in H1/20 and in H2 unveiled its PropTech strategy designed to capitalise on digitalisation trends. However, expected financing rounds pivotal to our growth assumptions have not materialised. In late November, the company announced another postponement of a planned bond until H2/21. Inadequate portfolio and operating transparency make forecasting extremely difficult. Plus, a low ICR (H1/20 interest coverage ratio: 0.7x) and valuation risk coupled with the swap of GORE and PREOS Investor GmbH stakes undermine our confidence. The company is in talks with a potential strategic investor and hinted at a Q2/21 decision. This will likely result in a reshuffled management board. Until overall visibility improves, we withdraw our estimates, suspend our price target (old: €17.6) and place PREOS Under Review (old: Buy).

**Low transaction transparency and “high” GORE valuation risk** PREOS announced the disposal of its Duisburg and “TA2” properties in February, but no insightful financial information on the transactions was communicated. We believe the Duisburg property was part of the GORE portfolio, which we think the office landlord purchased for around €4m in 2018. Last July, PREOS swapped an 89.9% stake in its subsidiary PREOS Immobilien GmbH for a 59.9% stake in GORE German Office Real Estate AG to sharpen its focus on higher-priced, premium office space. According to publicly AG’s 23 November 2020 Securities Prospectus offering PREOS Tokens, the valuations for the respective companies factor in “future projected earnings” based on expected property acquisitions among other considerations. The Prospectus further notes in Section II.1.b. that “the risk that the carrying amount for the 59.9% equity interest in GORE German Office Real Estate AG to be recognised in the Share Issuer’s HGB annual financial statements at 31 December 2020 will be significantly lower than the expected €179.8m to be *high*”. PREOS announced on 10 March, that the €179.8m valuation is now likely to fall. . . (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020E	2021E	2022E	2023E
Revenue (€m)	0.70	14.39	n.a.	n.a.	n.a.	n.a.
Y-o-y growth	2.7%	4.8%	n.a.	n.a.	n.a.	n.a.
EBIT (€m)	8.25	62.78	n.a.	n.a.	n.a.	n.a.
EBIT margin	3.0%	4.8%	n.a.	n.a.	n.a.	n.a.
Net income (€m)	31.32	413.35	n.a.	n.a.	n.a.	n.a.
EPS (diluted) (€)	1.57	5.77	n.a.	n.a.	n.a.	n.a.
DPS (€)	1.50	0.00	n.a.	n.a.	n.a.	n.a.
FCF (€m)	2.88	-7.19	n.a.	n.a.	n.a.	n.a.
Net gearing	0.1%	-0.1%	n.a.	n.a.	n.a.	n.a.
Liquid assets (€m)	1.33	61.41	n.a.	n.a.	n.a.	n.a.

### RISKS

Risks include, but are not limited to, insufficient financing, weaker than expected trends for German office markets, failure to capture planned reversionary potential, or undershooting forecasted acquisitions.

### COMPANY PROFILE

PREOS Global Office Real Estate & Technology AG is a real estate landlord specialised in the acquisition and optimisation of commercial properties throughout Germany. The company is also making inroads in PropTech and plans to internationalise operations.

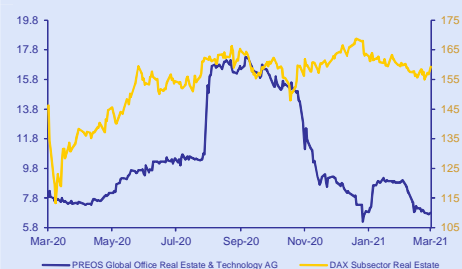
### MARKET DATA

As of 11 Mar 2021

Closing Price	€ 6.80
Shares outstanding	107.50m
Market Capitalisation	€ 731.00m
52-week Range	€ 6.20 / 17.30
Avg. Volume (12 Months)	32,043

Multiples	2019	2020E	2021E
P/FFO 2	n.a.	n.a.	n.a.
P/EPRA NAV	n.a.	n.a.	n.a.
FFO 2 Yield	n.a.	n.a.	n.a.
Div. Yield	n.a.	n.a.	n.a.

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2020

Liquid Assets	€ 16.07m
Current Assets	€ 64.81m
Intangible Assets	€ 1,036.75m
Total Assets	€ 1,283.40m
Current Liabilities	€ 310.00m
Shareholders' Equity	€ 301.30m

### SHAREHOLDERS

publity AG	86.5%
Free Float	13.5%



. . . in the range of €80m to €125m according to the hidden reserves disclosed in the HGB financial statements. The final value hinges on the YE20 audit, but this uncertainty provides us with a further reason to withdraw our previous estimates.

In our view, PREOS' portfolio and reporting transparency is generally low compared to other commercial landlords and complicates our ability to track transactions, property valuations, and model forecasts with any degree of accuracy.

**Low interest coverage ratio (ICR) is a concern** Interest expenses of €23.5m exceeded rental income revenue of €18.1m in H1/20. Our assumption was that new financing would spur strong growth and that cash recycling from disposals would greatly accelerate to offset and reverse the shortfall. So far this has not sufficiently materialised. We are therefore unable to retain our prior estimates.

## NEW STRATEGIC SHAREHOLDER IN THE WORKS

Major PREOS shareholder, publity AG, also announced that it is looking to sell a majority shareholding in PREOS to a strategic investor and that the terms of the transaction, including its exact scope and the future capitalisation of PREOS, are part of ongoing conversations. The closing of the transaction is targeted for the second quarter of 2021.

As signalled to the markets last September, Thomas Olek stepped down from the publity executive board as of 31 December 2020 and now serves as a consultant for the group. Mr Olek had been in talks with the PREOS Supervisory Board to become CEO, but this plan has been put on hold. PREOS' Supervisory Board subsequently appointed Stephan Noetzel to the Executive Board as COO alongside Frederik Mehlitz.

In the event that PREOS wins a new anchor investor, this may result in a further reshuffling of the management board. We can imagine that a new anchor investor will want a voice in the composition of the PREOS executive board and that Mr Olek will still be considered.

## VALUATION

We have withdrawn our financial forecasts and suspended our valuation until operations become more transparent; we can better quantify risks and see improved clarity for financing envisioned growth.



## INCOME STATEMENT

All figures in EUR '000	2018	2019	2020E	2021E	2022E	2023E
<b>Revenue</b>	<b>698</b>	<b>14,394</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Cost of sales	-28	-7,650	n.a.	n.a.	n.a.	n.a.
Revaluations & capital gains	8,265	101,683	n.a.	n.a.	n.a.	n.a.
Other operating income	2,506	4,407	n.a.	n.a.	n.a.	n.a.
Administration & other expenses	-517	-6,366	n.a.	n.a.	n.a.	n.a.
Depreciation & amortisation	-3	-64	n.a.	n.a.	n.a.	n.a.
<b>Operating income</b>	<b>10,921</b>	<b>106,404</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Net financial result	245	-12,020	n.a.	n.a.	n.a.	n.a.
Other financial expenses	-263	-14,224	n.a.	n.a.	n.a.	n.a.
<b>Pre-tax income (EBT)</b>	<b>10,903</b>	<b>80,160</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Income taxes	-22	46	n.a.	n.a.	n.a.	n.a.
Deferred taxes	-2,633	-13,893	n.a.	n.a.	n.a.	n.a.
<b>Net income / loss (NI)</b>	<b>8,248</b>	<b>66,313</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Other tax & income	0	0	n.a.	n.a.	n.a.	n.a.
<b>Comprehensive NI</b>	<b>8,248</b>	<b>66,313</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Minority interests	0	-3,533	n.a.	n.a.	n.a.	n.a.
<b>Net income after minorities</b>	<b>8,248</b>	<b>62,780</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Basic EPS (in €)</b>	<b>3.26</b>	<b>5.25</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Diluted EPS (in €)</b>	<b>2.95</b>	<b>4.82</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Adjusted EBITDA</b>	<b>2,659</b>	<b>4,785</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Ratios</b>						
Adj. EBITDA margin	380.9%	33.2%	n.a.	n.a.	n.a.	n.a.
Tax rate	0.2%	-0.1%	n.a.	n.a.	n.a.	n.a.
<b>Expenses as % of revenues</b>			<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Cost of sales	4.0%	53.1%	n.a.	n.a.	n.a.	n.a.
Administration & other expenses	74.1%	44.2%	n.a.	n.a.	n.a.	n.a.
<b>Y-Y Growth</b>						
Revenue	n.a.	1962.2%	n.a.	n.a.	n.a.	n.a.
Adj. EBITDA	n.a.	80.0%	n.a.	n.a.	n.a.	n.a.
Net income/ loss	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.



## BALANCE SHEET

All figures in EUR '000	2018	2019	2020E	2021E	2022E	2023E
<b>Current assets, total</b>	<b>17,493</b>	<b>106,304</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Cash and equivalents	1,333	61,414	n.a.	n.a.	n.a.	n.a.
Trade receivables	197	1,457	n.a.	n.a.	n.a.	n.a.
Assets held for sale	15,600	0	n.a.	n.a.	n.a.	n.a.
Other financial assets	212	38,561	n.a.	n.a.	n.a.	n.a.
Other ST assets	151	4,872	n.a.	n.a.	n.a.	n.a.
<b>Non-current assets, total</b>	<b>80,053</b>	<b>806,562</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Investment properties	17,000	612,101	n.a.	n.a.	n.a.	n.a.
Property, plant & equipment	12	471	n.a.	n.a.	n.a.	n.a.
Goodwill & other intangibles	0	123,912	n.a.	n.a.	n.a.	n.a.
Financial assets	61,351	55,847	n.a.	n.a.	n.a.	n.a.
Shares in companies at equity	1,690	1,103	n.a.	n.a.	n.a.	n.a.
Advanced payments	0	13,128	n.a.	n.a.	n.a.	n.a.
<b>Total assets</b>	<b>97,546</b>	<b>912,866</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Current liabilities, total</b>	<b>66,222</b>	<b>150,284</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Trade payables	107	15,391	n.a.	n.a.	n.a.	n.a.
ST debt	64,553	130,330	n.a.	n.a.	n.a.	n.a.
Other current liabilities	1,562	4,563	n.a.	n.a.	n.a.	n.a.
<b>Non-current liabilities, total</b>	<b>2,677</b>	<b>499,368</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
LT financial debt	0	299,915	n.a.	n.a.	n.a.	n.a.
Corporate debt	0	143,388	n.a.	n.a.	n.a.	n.a.
Deferred tax	2,677	20,042	n.a.	n.a.	n.a.	n.a.
Other financial liabilities	0	36,023	n.a.	n.a.	n.a.	n.a.
<b>Shareholders' equity</b>	<b>28,647</b>	<b>256,565</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Minority interests	0	6,649	n.a.	n.a.	n.a.	n.a.
<b>Total equity</b>	<b>28,647</b>	<b>263,214</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Total consolidated equity and debt</b>	<b>97,546</b>	<b>912,866</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Ratios</b>						
Current ratio (x)	0.3	0.7	n.a.	n.a.	n.a.	n.a.
Net debt	63,220	512,219	n.a.	n.a.	n.a.	n.a.
Net gearing	221%	200%	n.a.	n.a.	n.a.	n.a.
Loan to value (LTV)	198%	94%	n.a.	n.a.	n.a.	n.a.
Net LTV	194%	84%	n.a.	n.a.	n.a.	n.a.
Equity ratio	29%	28%	n.a.	n.a.	n.a.	n.a.
Interest coverage (ICR) (x)	31.7	0.3	n.a.	n.a.	n.a.	n.a.

\* According to IFRS reporting



## CASH FLOW STATEMENT

All figures in EUR '000	2018	2019	2020E	2021E	2022E	2023E
<b>Net income</b>	<b>8,248</b>	<b>66,313</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Depreciation and amortisation	0	54	n.a.	n.a.	n.a.	n.a.
Write downs non-financial assets	247	13,637	n.a.	n.a.	n.a.	n.a.
Revaluation gains	-8,265	-101,683	n.a.	n.a.	n.a.	n.a.
At equity gains / losses	16	587	n.a.	n.a.	n.a.	n.a.
Net financial result	-467	-6,263	n.a.	n.a.	n.a.	n.a.
Tax result	2,632	13,893	n.a.	n.a.	n.a.	n.a.
<b>Operating cash flow</b>	<b>2,411</b>	<b>-13,462</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Change in trade rec & other assets	269	-44,724	n.a.	n.a.	n.a.	n.a.
Change in payable & other liabilities	22,204	53,577	n.a.	n.a.	n.a.	n.a.
Provisions and other liabilities	105	-3	n.a.	n.a.	n.a.	n.a.
Other non-cash expenses / income	-2,506	-4,574	n.a.	n.a.	n.a.	n.a.
Tax expense	0	-9	n.a.	n.a.	n.a.	n.a.
<b>Operating cash flow</b>	<b>22,483</b>	<b>-9,195</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Outflow for investment properties	-22,525	-242,797	n.a.	n.a.	n.a.	n.a.
Inflow from property disposals	0	15,520	n.a.	n.a.	n.a.	n.a.
Purchase of at equity investments	-1,706	0	n.a.	n.a.	n.a.	n.a.
Sale of subsidiaries	233	17,889	n.a.	n.a.	n.a.	n.a.
CapEx	0	-353	n.a.	n.a.	n.a.	n.a.
Change in financial assets	-17,362	526	n.a.	n.a.	n.a.	n.a.
<b>Cash flow from investing</b>	<b>-41,360</b>	<b>-209,215</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Free cash flow (FCF)</b>	<b>-18,877</b>	<b>-218,410</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Equity inflow, net	19,850	0	n.a.	n.a.	n.a.	n.a.
Debt inflow, net	0	247,561	n.a.	n.a.	n.a.	n.a.
Corporate debt, net	0	30,975	n.a.	n.a.	n.a.	n.a.
Interest expense	0	0	n.a.	n.a.	n.a.	n.a.
Dividends paid	0	0	n.a.	n.a.	n.a.	n.a.
Others	0	-45	n.a.	n.a.	n.a.	n.a.
<b>Cash flow from financing</b>	<b>19,850</b>	<b>278,536</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Net cash flows</b>	<b>973</b>	<b>60,126</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Cash, start of the year	360	1,333	n.a.	n.a.	n.a.	n.a.
<b>Cash, end of the year</b>	<b>1,333</b>	<b>61,459</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Adj. EBITDA / share (€)</b>	<b>0.05</b>	<b>0.05</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>

\* According to IFRS reporting

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#### PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

#### ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

##### ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

<sup>1</sup> The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

##### RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

#### RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	19 November 2019	€8.65	Add	€7.30
2	12 November 2020	€11.10	Buy	€17.60
3	Today	€6.80	Under review	Suspended

#### INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

### UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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#### Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

**SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main**

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