

publity AG

Germany / Real Estate
 Frankfurt Stock Exchange
 Bloomberg: PBY GR
 ISIN: DE0006972508

Update

RATING
BUY

PRICE TARGET
€ 55.00

Return Potential 48.8%
 Risk Rating High

COMMERCIAL LANDLORD STRATEGY TAKING SHAPE

H2 headlines were focused on the ramp-up of publity's landlord operations, which now run through PREOS Real Estate AG. publity now holds a 93% stake in the commercial landlord. PREOS kicked off an aggressive growth strategy this year and is on track to control >€0.7bn in German office properties by YE19. Plus, publity recently announced a significant boost in AuM (assets under management), which are expected to reach €7bn by YE20 (now: €5.5bn). We have adjusted our forecasts to reflect the expansion of landlord operations and the increase in AuM fees. Our price target moves to €55 (old: €44), and we upgrade the stock to Buy (old: Add).

What has changed? publity now owns 93% of PREOS Real Estate AG after a series of transactions timelined below. The commercial landlord is in the early stages of an aggressive growth strategy and is building a stable of office properties in German metropolises and their outskirts. We estimate PREOS will invest some €2.6bn into the still strong German office segment. Plus, publity's AuM will climb to ~€7bn by YE20 to spur asset management operations and the associated property acquisition, management and exit fees. We have raised our forecasts to reflect the improved outlook for the landlord and asset management operations.

Evolution of the PREOS stake In July, publity contributed 94.9% of the fully-owned publity Investor GmbH share capital to PREOS in exchange for 47.45m PREOS shares at a value of €8.00 per share. In October, publity raised its 66.2% stake in PREOS to 93% by way of a contribution in kind capital increase. TO-Holding GmbH and TO-Holding 2 GmbH contributed their PREOS holdings (19m shares) against 4.5m new publity shares. The contributed PREOS shares were valued at €8.00 and the publity shares used €33.82 (90-day mean XETRA closing price) as a reference for the swap. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019E	2020E	2021E
Revenue (€m)	29.25	37.22	40.04	64.06	82.64
Y-o-y growth	n.a.	27.2%	7.6%	60.0%	29.0%
Adj. EBITDA (€m)	13.67	22.02	25.34	42.78	55.60
Adj. EBITDA margin	46.7%	59.2%	63.3%	66.8%	67.3%
Net income (€m)	10.59	24.53	49.85	128.64	140.83
EPS (diluted) (€)	1.64	2.95	3.68	8.04	8.80
DPS (€)	0.00	1.50	2.03	4.36	4.77
FCF (€m)	-2.51	-18.76	-396.98	-647.41	-109.68
Net gearing	118.7%	24.6%	148.7%	283.0%	283.7%
Liquid assets (€m)	9.53	27.95	149.46	76.48	136.47

* EBITDA adjusted for non-cash revaluations and disposal income

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavourable macroeconomic developments, and the departure of key personnel.

COMPANY PROFILE

Founded in 1999, the Frankfurt am Main-based publity AG is an established asset manager and investor with a focus on office real estate in German metropolises such as Frankfurt and Munich. Services cover key steps in the property value chain from acquisition, management to property sales.

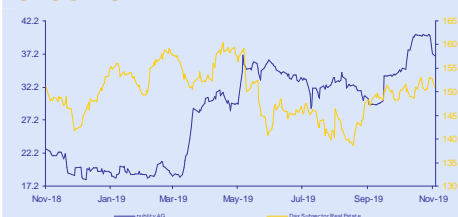
MARKET DATA

As of 02 Dec 2019

Closing Price	€ 36.95
Shares outstanding	14.76m
Market Capitalisation	€ 545.38m
52-week Range	€ 18.18 / 40.20
Avg. Volume (12 Months)	15,759

Multiples	2018	2019E	2020E
P/E	12.5	10.0	4.6
EV/Sales	15.4	14.4	9.0
EV/EBITDA	26.1	22.7	13.4
Div. Yield	4.1%	5.5%	11.8%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2018

Liquid Assets	€ 27.95m
Current Assets	€ 63.23m
Intangible Assets	€ 17.00m
Total Assets	€ 187.95m
Current Liabilities	€ 20.45m
Shareholders' Equity	€ 119.80m

SHAREHOLDERS

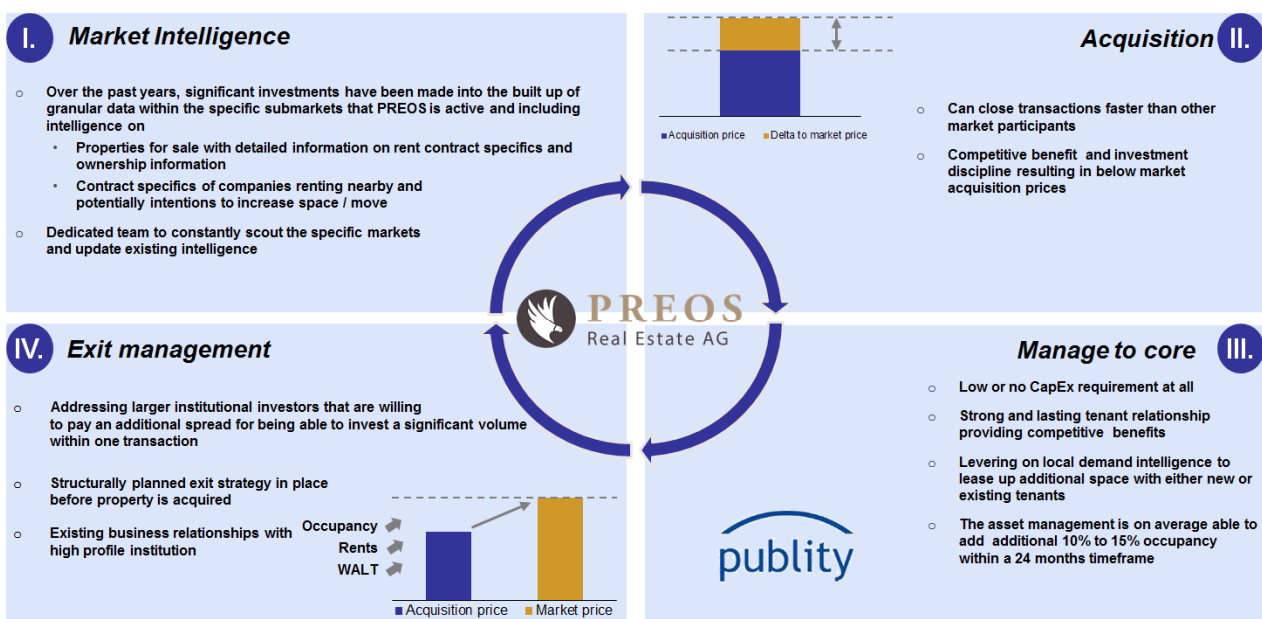
Thomas Olek	84.0%
Free Float	16.0%

PARTNERSHIP WITH GOOD SYNERGIES

PREOS Real Estate AG specialises in the acquisition and optimisation of income-generating properties in the German commercial real estate market with the aim of building a high yield portfolio of manage-to-core and core(+) office properties.

The company was founded in 2014 as AMG Immobilien Berlin GmbH and kicked off small-scale landlord operations. After being acquired by Olek Holding GmbH in early 2018, the company updated its legal form and rebranded as PREOS Real Estate AG. The changes heralded a more aggressive strategic focus spearheaded by a new management team with deeper market expertise.

Figure 1: Blueprint to leverage off-market pipeline



Source: First Berlin Equity Research; PREOS AG

Operational roadmap for further growth PREOS pursues an active cash recycling strategy that combines a classic buy and hold approach with opportunistic disposals. The company wants to leverage its expertise and network to optimise underperforming assets acquired at market discounts and sell them to augment external financing sources and profits.

Portfolio approaching €0.7bn threshold PREOS has a stable of 17 office assets with an annualised rental income run rate of €22.5m. Another four properties are expected to close in Q4, which should propel GAV (gross asset value) north of €0.7bn with upside towards €1.0bn this year. We model €800m in investments next year and a total of €2.6bn through 2022.



THE RIGHT PARTNERSHIP

PREOS will lean on publity to arrange off-market transactions that should allow the landlord to ink deals below their respective market values. publity's services cover several key steps of the real estate value chain from sourcing, due diligence, and acquisition, to property management and potential disposals.

publity has an extensive track record having completed over 1,150 successful property transactions including >620 property acquisitions and 530 disposals over the last seven years. This experience, combined with a robust infrastructure built upon a massive proprietary database that silos >9,100 properties, is the foundation of a proven ability to execute quickly at key steps of the property value chain. In our view, these considerations make publity the ideal partner to handle asset and property management duties for PREOS.

INCREASING ESTIMATES AND PRICE TARGET

We have combined PREOS' landlord operations with publity's core asset management business. For PREOS, we model €800m in investments next year and a total of €2.6bn through 2022. This is well ahead of the €850m planned for publity Investor GmbH in our previous model over the same timeframe and accounts for the strong uplift in expected earnings. The spike in our 2020 estimates is traced to the high volume of acquisitions closed in H2/19 that will have their full impact next year. Conversely, FBe 2019 EPS dips on the higher share count from the discussed share issuances.

Table 1: Changes to forecasts and price target

	old	new	revision	upside	dividend yield	total upside
Price target (€)	44.0	55.0	25.0%	48.8%	5.5%	54.3%
	2019E			2020E		
in €m	Old	New	variance	Old	New	variance
Revenue	38.5	40.0	4%	44.3	64.1	45%
EBITDA	81.3	87.7	8%	88.2	219.2	149%
Adj. EBITDA ¹	24.3	25.3	4%	29.0	42.8	48%
margin	63%	63%	-	65%	67%	-
Net income	48.8	49.8	2%	53.1	128.6	142%
EPS (€) (diluted)	4.97	4.05	-18%	5.40	8.72	61%

¹ adjusted for non-csh revaluation gains and disposal profits

Source: First Berlin Equity Research estimates

The recalibrated balance sheet likewise reflects the portfolio expansion and associated debt load. We expect PREOS to finance growth with a blend of corporate and bank debt and maintain a relatively high LTV (>70%) for new properties, owing to the cash recycling component that assumes an 18 to 24 month holding period.

In November, publity subscribed to PREOS convertible bonds and contributed publity Investor GmbH loan receivables valued at €113m in a contribution in kind transaction. We believe PREOS will tap up the bond in early 2020 to finance future growth.



VALUATION MODEL

We use a DCF model to value publity. In our view, this approach is well suited to the company's fee-driven and landlord-based income streams. We have lowered our WACC to 6.7% from 9.6% due to the higher ratio of landlord operations. publity now has a much larger on-balance sheet portfolio, and the capital structure now includes a much higher portion of debt to equity. The primary risk factor from our perspective is capital required to spur future external growth, while the brief track record for large-scale landlord operations is also considered.

Our model discounts cash flows from 2030 for a total enterprise value of €1.4bn, of which 49% stems from the explicit period. We adjust for pro-forma net debt of €0.5bn and €98m in minorities, which reflects the latest operational iteration. Based on fully diluted shares outstanding of 16m that includes the 4,927k shares issued this year, our fair value estimate corresponds to €55 / share (old: €44).

All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	40,041	64,065	82,644	99,173	112,263	118,999	124,949	129,947
NOPLAT	28,275	59,960	94,688	178,759	99,309	90,150	80,609	70,610
(+) depreciation & amortisation	1,081	1,730	2,231	2,678	3,031	3,213	3,374	3,509
Net operating cash flow	29,356	61,690	96,919	181,436	102,340	93,362	83,983	74,119
(-) Total investments (CAPEX and WC)	-2,061	-1,110	-1,883	-2,460	-2,989	-3,442	-3,652	-3,840
(-) Capital expenditures	-1,201	-1,922	-2,479	-2,975	-3,368	-3,570	-3,748	-3,898
(-) Working capital	-859	812	596	515	379	128	96	58
Free cash flows (FCF)	27,296	60,580	95,036	178,976	99,351	89,920	80,331	70,278
PV of FCF's	27,166	56,528	83,145	146,808	76,408	64,838	54,308	44,546

All figures in thousands	WACC	Terminal EBIT margin							
		72.6%	74.6%	76.6%	78.6%	80.6%	82.6%	84.6%	
PV of FCFs in explicit period	712,626	3.7%	140.38	145.99	151.60	157.21	162.82	168.44	174.05
PV of FCFs in terminal period	721,683	4.7%	91.42	94.87	98.32	101.76	105.21	108.66	112.11
Enterprise value (EV)	1,434,308	5.7%	65.77	68.13	70.48	72.84	75.20	77.55	79.91
(+) Net cash / - net debt (pro-forma 2019E)	-456,575	6.7%	49.88	51.59	53.31	55.02	56.73	58.44	60.15
(+) Investments / minority interests	-97,533	7.7%	39.02	40.31	41.60	42.90	44.19	45.48	46.78
Shareholder value	880,200	8.7%	31.08	32.09	33.09	34.09	35.10	36.10	37.11
Fair value per share (€)	55.00	9.7%	25.00	25.80	26.59	27.39	28.19	28.98	29.78

	WACC	Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	11.5%	3.7%	99.48	112.63	130.73	157.21	199.68	278.83	478.37
Pre-tax cost of debt	6.0%	4.7%	73.64	80.76	89.83	101.76	118.19	142.24	180.79
Tax rate	32.5%	5.7%	56.86	61.15	66.37	72.84	81.08	91.92	106.85
After-tax cost of debt	4.1%	6.7%	45.06	47.84	51.11	55.02	59.76	65.64	73.14
Share of equity capital	35.0%	7.7%	36.30	38.19	40.37	42.90	45.87	49.43	53.75
Share of debt capital	65.0%	8.7%	29.52	30.86	32.37	34.09	36.08	38.38	41.09
WACC	6.7%	9.7%	24.11	25.08	26.17	27.39	28.77	30.34	32.15

*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Revenues	29,249	37,217	40,041	64,065	82,644
Cost of goods sold	-3,626	-6,793	-4,805	-7,688	-9,917
Other income	287	1,294	300	300	300
Gains from property disposals	0	0	17,628	47,774	86,908
Personnel expenses	-2,322	-2,024	-2,186	-2,361	-2,549
Other OpEx	-9,917	-7,675	-8,008	-11,532	-14,876
Revaluation gains	0	8,940	44,692	128,637	106,925
EBITDA	13,671	30,959	87,662	219,196	249,434
Depreciation & amortisation	-1,775	-143	-1,081	-1,730	-2,231
Operating income (EBIT)	11,896	30,816	86,581	217,466	247,203
Net financial result	6,966	5,604	-15,369	-33,696	-46,016
Depreciation of LT financial assets	-4,085	-2,963	0	0	0
Other financial result	1,048	-16	0	0	0
Pre-tax income (EBT)	15,825	33,441	71,212	183,771	201,188
Income taxes	-5,136	-8,826	-21,364	-55,131	-60,356
Minority interests	-97	-85	0	0	0
Net income / loss	10,592	24,531	49,848	128,639	140,831
Basic EPS (in €)	1.75	3.26	4.05	8.72	9.54
Diluted EPS (in €)	1.64	2.95	3.68	8.04	8.80
Adjusted EBITDA	13,671	22,019	25,342	42,785	55,601
Ratios					
Adjusted EBITDA margin	46.7%	59.2%	63.3%	66.8%	67.3%
Net margin	36.2%	65.9%	124.5%	200.8%	170.4%
Tax rate	32.5%	26.4%	30.0%	30.0%	30.0%
Expenses as % of revenues					
Personnel expenses	7.9%	5.4%	5.5%	3.7%	3.1%
Other OpEx	33.9%	20.6%	20.0%	18.0%	18.0%
Depreciation & amortisation	6.1%	0.4%	2.7%	2.7%	2.7%
Y-Y Growth					
Revenues	-29.7%	27.2%	7.6%	60.0%	29.0%
Operating income	-65.1%	159.0%	181.0%	151.2%	13.7%
Net income/ loss	-54.1%	131.6%	103.2%	158.1%	9.5%

* According to IFRS reporting



BALANCE SHEET

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Assets					
Current assets, total	45,456	78,833	200,498	127,682	187,826
Cash and equivalents	9,534	27,953	149,460	76,485	136,469
Trade receivables	32,486	33,855	33,990	34,126	34,263
Assets held for sales	0	15,600	15,600	15,600	15,600
Other financial assets	578	1,129	1,145	1,163	1,180
Other ST assets	2,858	296	302	308	314
Non-current assets, total	87,878	109,102	722,777	1,533,448	1,830,693
Investment properties	0	17,000	629,295	1,438,495	1,734,194
Property, plant & equipment	5,167	7,842	7,962	8,154	8,402
Goodwill & other intangibles	1	1	1	1	1
Financial assets	82,055	81,726	82,952	84,196	85,459
Shares in companies at equity	0	1,690	1,724	1,758	1,793
Other non-current assets	655	843	843	843	843
Total assets	133,334	187,935	923,274	1,661,130	2,018,519
Shareholders' equity & debt					
Current liabilities, total	22,136	20,445	19,808	20,843	21,665
Trade payables	1,930	2,304	1,580	2,527	3,260
ST debt	18,992	12,369	12,369	12,369	12,369
Tax liabilities	361	2,889	2,932	2,976	3,021
Other current liabilities	854	2,883	2,927	2,971	3,015
Non-current liabilities, total	56,060	47,693	596,398	1,229,503	1,509,558
LT financial debt	55,599	45,015	593,666	1,226,716	1,506,716
Deferred tax	461	2,678	2,732	2,787	2,842
Shareholders' equity	55,138	119,797	307,069	410,784	487,296
Total consolidated equity and debt	133,334	187,935	923,274	1,661,130	2,018,519
Ratios					
Current ratio (x)	2.1	3.9	10.1	6.1	8.7
Net debt	65,056	29,431	456,575	1,162,600	1,382,616
Net gearing	118%	25%	149%	283%	284%
Equity ratio	41%	64%	33%	25%	24%
Return on equity (ROE)	19.5%	20.5%	16.2%	31.3%	28.9%
Capital employed (CE)	35,725	39,394	40,374	39,754	39,406

* According to IFRS reporting



CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Net income	10,689	24,615	49,848	128,639	140,831
Depreciation and amortisation	555	710	1,081	1,730	2,231
Revaluation gains	0	-8,940	-44,692	-128,637	-106,925
Other consolidation adjustments	0	-1,023	0	0	0
Revenue from assets valued at equity	0	16	0	0	0
Change in trade rec & other assets	5,493	-5,624	-158	-159	-160
Change in payable & other liabilities	-7,393	13,422	-584	1,090	878
Net interest expense	-719	-1,829	15,369	33,696	46,016
Operating cash flow	8,625	20,972	20,864	36,359	82,871
Repayment of loan receivables	2,050	1,958	0	0	0
Payment for acquiring loan receivables	-12,950	0	0	0	0
Other consolidation adjustments	0	-19,509	0	0	0
Outflow for investment properties	0	-22,525	-575,636	-800,000	-700,000
Inflow from property disposals	0	0	160,257	119,436	511,226
CapEx	-236	-167	-1,201	-1,922	-2,479
Change in financial assets	0	511	-1,259	-1,279	-1,298
Cash flow from investing	-11,136	-39,732	-417,840	-683,765	-192,551
Free cash flow (FCF)	-2,511	-18,760	-396,975	-647,405	-109,680
Equity inflow, net	0	40,450	0	0	0
Debt inflow, net	19,280	-2,826	548,651	633,050	280,000
Repayment of financing leases	-293	-446	0	0	0
Interest result	0	0	-15,369	-33,696	-46,016
Dividends paid	-16,940	0	-14,800	-24,924	-64,320
Cash flow from financing	2,046	37,178	518,483	574,430	169,665
Net cash flows	-464	18,419	121,507	-72,975	59,985
Cash, start of the year	9,999	9,534	27,953	149,460	76,485
Cash, end of the year	9,534	27,953	149,460	76,485	136,469
EBITDA/share (in €)	2.26	3.76	6.48	13.70	15.59

* According to IFRS reporting

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	23 November 2018	€21.35	Buy	€29.00
2	10 January 2019	€19.76	Buy	€30.00
3	15 March 2019	€19.30	Buy	€30.00
4	5 June 2019	€37.00	Add	€44.00
5	Today	€36.95	Buy	€55.00

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First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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In accordance with Section 34b Paragraph 1 of the German Securities Trading Act [WpHG] and Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) financial analyses may only be passed on or publicly distributed if circumstances or relations which may cause conflicts of interest among the authors, the legal entities responsible for such preparation or companies associated with them are disclosed along with the financial analysis.

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PRICE TARGET DATES

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

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

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 ¹	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%

¹ 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.

INVESTMENT HORIZON

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

UPDATES

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