GBC AG Investment Research

Coreo AG*5a,6a,11

BUY
Target price: 1.85 EUR
(previously: 2.15 EUR)

Current share price: € 0.85
25.10.22 / XETRA; 5:36 pm
Currency: EUR

Key data:

ISIN: DE000A0B9VV6
WKN: A0B9VV
Ticker symbol: CORE
Number of shares³: 22,55
Market cap³: 19,17
EnterpriseValue³: 61,15
³ in million / in EUR million

Transparency level:
Open Market
Market segment:
Open Market

Accounting:
IFRS

Financial year: 31.12.

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* Catalogue of possible conflicts of interest on page 8

Date and time of completion:
26.10.22 (08:31 am)

Date and time first distribution:
26.10.22 (10:00 am)

Validity of the price target: until max. 31.12.2023

Company profile

Industry: Real estate

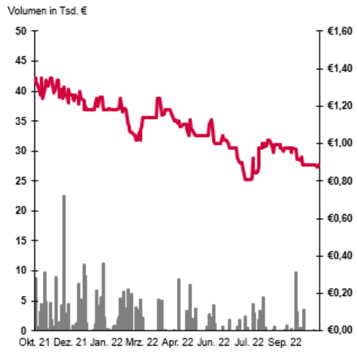
Focus: Commercial and residential real estate

Employees : 9 (30.06.2022)

Foundation: 2003

Head office: Frankfurt am Main

Board of Directors: Dennis Gothan, Michael Tegeder



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	31.12.2021	31.12.2022e	31.12.2023e	31.12.2024e
Total earnings	16.53	7.99	21.55	26.39
EBITDA	2.87	2.73	9.43	13.57
EBIT	2.84	2.63	9.08	13.22
Net profit for the year	-0.89	-0.16	4.08	6.91
Key figures in EUR				
Earnings per share	-0.05	-0.01	0.18	0.31
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
EV/total earnings	3.70	7.66	2.84	2.32
EV/EBITDA	21.34	22.39	6.48	4.51
EV/EBIT	21.55	23.24	6.73	4.63
KGV	neg.	neg.	4.70	2.77
KBV	0.71			

Financial dates
28-30.11.22: Eigenkapitalforum

**last research from GBC:
Date: Publication / Target price in EUR / Rating
30.05.2022: RS / 2.15 / BUY
04.10.2021: RS / 2.60 / BUY
19.08.2021: RS / 2.60 / BUY
21.12.2020: RS / 2.35 / 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 2022: Half-year figures in line with expectations; Lower new investments forecast; Target price reduced to € 1.85 (previously: € 2.15); Rating: BUY

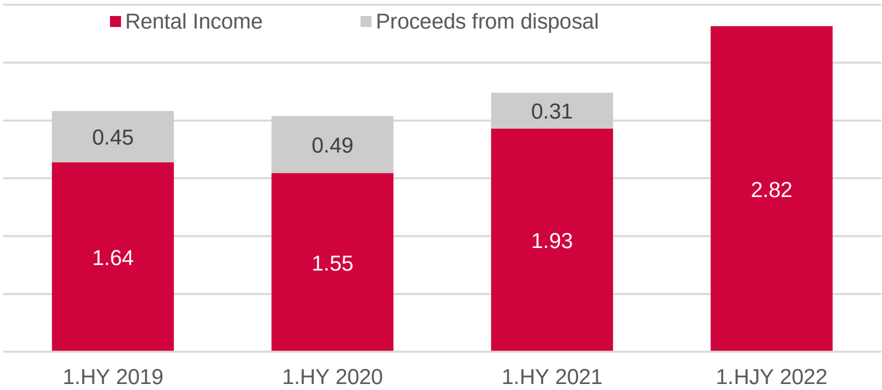
in € m	1.HY 2019	1.HY 2020	1.HY 2021	1.HY 2022
Rental income	1.64	1.55	1.93	2.82
Proceeds from disposals	0.45	0.49	0.31	0.00
Valuation result	0.00	0.00	0.78	-0.53
EBIT	-0.31	-0.10	0.50	-0.61
After-tax result	-1.65	-0.74	-0.81	-1.96

Sources: Coreo AG; GBC AG

Turnover and earnings development in the first half of 2022

In the first six months of 2022, Coreo AG's earnings development was largely in line with our expectations. This applies in particular to rental income, which increased significantly by 45.9% to €2.82 million (previous year: €1.93 million). This increase primarily reflects the expansion of their property portfolio in connection with the acquisitions made the previous year. In July 2021, two production sites and the administrative headquarters of a listed German automotive supplier were acquired, resulting in annual rental income of €0.70 million. In addition, Coreo AG acquired a logistics property in Delmenhorst in September 2021, which contributes annual rental income of € 0.50 million. The "inorganic" contribution to the increase in rents is therefore likely to have been around € 0.60 million. On the other hand, new lettings and rent increases also contributed to the increase in rental income.

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



Sources: Coreo AG; GBC AG

We had also anticipated a decline in the disposal result in advance. Following Coreo AG's extensive disposals in the 2021 financial year, a small number of properties from the Mannheim and Göttingen portfolios were sold in the reporting period. As the proceeds from the sales were at book value level, the sales proceeds amounted to € 0.00 million (previous year: € 0.31 million).

In the run-up to the transactions, the book values of their properties in their Mannheim portfolio, which has now been completely sold, were adjusted to the low sales price and a corresponding reduction in value of € -0.53 million (previous year: € 0.40 million) was recognised in profit or loss.

The lack of gains from disposals and the significantly lower valuation result than in the previous year were mainly responsible for the decline in EBIT to €-0.61 million (previous year: €0.50 million). The increase in operating costs to €3.04 million (previous year: €2.64 million), which is particularly related to the capital increase carried out in May 2022, also contributed to the decline in EBIT.

The bottom line is that the result for the period was again below break-even at € -1.96 million (previous year: € -0.81 million). The decline in earnings also includes an increase in financial expenses to € 1.48 million (previous year: € 1.14 million). This reflects an increase in financial liabilities in connection with the property acquisitions.

Forecasts and model assumptions

in € m	FY 2021	Fy 22e (old)	FY 22e (new)	FY 23e (old)	FY 23e (new)	FY 24e (old)	FY 24e (new)
Rental income	4.35	5.23	5.10	11.71	10.05	13.92	11.69
Proceeds from disposals	10.32	4.80	0.79	8.80	6.80	6.00	6.80
Valuation result	1.86	3.00	2.10	8.68	4.70	9.31	7.90
EBIT	2.84	4.22	2.63	12.89	9.09	13.90	13.22
After-tax result	-0.89	0.99	-0.16	6.76	4.08	7.28	6.91

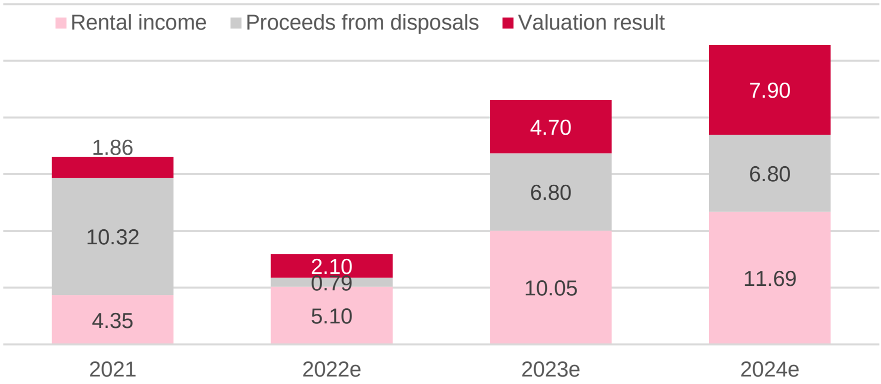
Source: GBC AG

With the publication of the half-year figures, the Coreo management confirmed the previous guidance, according to which rental income of € 3.8 million is to be generated on a full-year basis. The guidance issued in the annual report, according to which the portfolio volume should increase to well over € 100 million by the end of the year, was not addressed in the half-year report. Until now, the target property volume communicated by the company as of 31 December 2022 took into account the addition of the largest property portfolio in the company's history. In July 2021, Coreo AG reported on the intended acquisition of a portfolio with a total property portfolio of 1,341 flats and 15 commercial units. It can be assumed that the portfolio will not be added in the current financial year.

With a view to the level of rental income, the guidance should be easily achievable after gross rental income of € 2.82 million (net cold rent: € 2.23 million) was already achieved in the first half of the year. Especially as the company has handed over individual properties (e.g. in Kiel and Wetzlar) to tenants in the current financial year and has been able to implement rent increases in some rented properties. Even without the addition of the large portfolio, the targeted rent level should be easily achievable. We expect rental income of € 5.10 million for the current financial year 2022 (previous forecast: € 5.23 million), which should gradually increase in the course of the expected portfolio addition (rental income: € 3.8 million) and further investments in the coming financial years.

The rental increases we expect for the coming financial years thus take into account the company's growth strategy. Based on the current liquidity of € 12.50 million, the company could acquire new properties with a total volume of around € 20 million at an LTV of 60% to 65%. In our updated forecasts, we assume the addition of new properties with a volume of € 20 million by the financial year 2023, which, in addition to the expected addition of the already agreed large portfolio, should lead to a visible increase in rental income. For the 2024 financial year, we expect new investments of € 30 million, which is below our previous assumptions, in which we had assumed new investments totalling € 80 million for the period 2022 to 2024. This explains the lower rental income forecasts for the coming financial years.

Income forecasts (in €m)



Source: GBC AG

For the second half of 2022, we do not assume any significant sales activities and therefore assume a balanced sales result for the full year 2022. However, we expect a significant improvement in the valuation result, which amounted to € -0.53 million in the first half of 2022 due to the valuation adjustment of the sold Mannheim portfolio. This is due to the successful transfer of properties to new tenants and the implemented rent increases. According to our expectations, the valuation result of the coming financial years will be characterised in particular by value-creating asset management successes in the new large portfolio and new property investments.

In view of the lower investment expectations for the coming financial years, the reduced earnings estimates lead to lower EBIT forecasts. However, since the high-margin rental income should tend to gain in importance and the equally high-margin valuation income should also increase in volume, we expect an increase in the profitability level. Accordingly, we expect a disproportionate increase in EBIT and an EBIT margin that should rise above 40% from the coming financial year.

Within the framework of our adjusted DCF valuation model, we have determined a new price target of € 1.85 (previously: € 2.15). On the one hand, the reduction of our forecasts led to a lower target price. In addition, the increase in the WACC as a result of the higher risk-free interest rate also had the effect of reducing the target price. We continue to assign the BUY rating.

Evaluation

Model assumptions

Coreo AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2022 to 2024 in phase 1, the forecast is made from 2025 to 2029 in the second phase by applying value drivers. We expect increases in revenue of 3.5 %. We have assumed a target EBITDA margin of 62.0% (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 also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value we assume a growth rate of 2.0%.

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 1.25 % (previously: 0.40 %).

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.

Using the assumptions made, we calculate a cost of equity of 8.71% (previously: 7.86%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of 60% for the cost of equity, the weighted average cost of capital (WACC) is 6.94% (previously 6.43%).

Valuation result

Within the framework of our DCF valuation model, we have determined a new price target of € 1.85 (previously: € 2.15). Our changed forecasts of the specific valuation period as well as the increase in the risk-free interest rate and thus the WACC have led to the price target reduction.

Coreo AG - Discounted Cashflow (DCF) model

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

consistency - phase	
Revenue growth	3.5%
EBITDA-margin	62.0%
Depreciation on fixed assets	0.2%
Working capital to sales	28.0%

final - phase	
Perpetual growth rate	2.0%
Perpetual EBITA margin	60.8%
Effective tax rate in terminal value	25.0%

Three-phase DCF - model:

Phase	estimate			consistency					final
in mEUR	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	TV
Revenue (RE)	7.20	16.59	23.35	24.17	25.02	25.89	26.80	27.74	
Revenue change	-5.0%	130.3%	40.8%	3.5%	3.5%	3.5%	3.5%	3.5%	2.0%
Revenue to fixed assets	0.10	0.12	0.14	0.15	0.15	0.15	0.16	0.16	
EBITDA	2.73	9.43	13.57	14.99	15.51	16.05	16.61	17.20	
EBITDA-margin	37.9%	56.9%	58.1%	62.0%	62.0%	62.0%	62.0%	62.0%	
EBITA	2.63	9.08	13.22	14.64	15.16	15.70	16.26	16.83	
EBITA-margin	36.5%	54.8%	56.6%	60.6%	60.6%	60.6%	60.7%	60.7%	60.8%
Taxes on EBITA	-0.66	-2.27	-3.31	-3.66	-3.79	-3.92	-4.06	-4.21	
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBI (NOPLAT)	1.97	6.81	9.92	10.98	11.37	11.77	12.19	12.63	
Return on Capital	2.7%	8.5%	7.0%	6.4%	6.6%	6.8%	6.9%	7.1%	7.2%
Working Capital (WC)	7.00	7.50	8.00	6.77	7.00	7.25	7.50	7.77	
WC to sales	97.2%	45.2%	34.3%	28.0%	28.0%	28.0%	28.0%	28.0%	
Investment in WC	3.41	-0.50	-0.50	1.23	-0.24	-0.25	-0.25	-0.26	
Operating fixed assets (OFA)	73.63	134.73	164.23	165.73	167.23	168.73	170.23	171.73	
Depreciation on OFA	-0.10	-0.35	-0.35	-0.35	-0.35	-0.36	-0.36	-0.36	
Depreciation to OFA	0.1%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	
CAPEX	-10.13	-61.45	-29.85	-1.85	-1.85	-1.86	-1.86	-1.86	
Capital Employed	80.63	142.23	172.23	172.50	174.23	175.98	177.73	179.49	
EBITDA	2.73	9.43	13.57	14.99	15.51	16.05	16.61	17.20	
Taxes on EBITA	-0.66	-2.27	-3.31	-3.66	-3.79	-3.92	-4.06	-4.21	
Total Investment	-6.72	-61.95	-30.35	-0.62	-2.09	-2.10	-2.11	-2.13	
Investment in OFA	-10.13	-61.45	-29.85	-1.85	-1.85	-1.86	-1.86	-1.86	
Investment in WC	3.41	-0.50	-0.50	1.23	-0.24	-0.25	-0.25	-0.26	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	-4.65	-54.79	-20.08	10.71	9.63	10.03	10.44	10.86	188.22

Value operating business (due date)	85.93	146.69
Net present value explicit free Cashflows	-31.74	20.85
Net present value of terminal value	117.67	125.84
Net debt	46.43	104.87
Value of equity	39.51	41.82
Minority interests	-0.11	-0.11
Value of share capital	39.40	41.71
Outstanding shares in m	22.55	22.55
Fair value per share in €	1.75	**1.85**

Cost of Capital:

Risk free rate	1.3%
Market risk premium	5.5%
Beta	1.36
Cost of equity	8.7%
Target weight	60.0%
Cost of debt	5.2%
Target weight	40.0%
Taxshield	17.7%
WACC	**6.9%**

Return on Capital	WACC				
	6.7%	**6.8%**	**6.9%**	**7.0%**	**7.1%**
7.0%	1.92	1.78	1.63	1.50	1.37
7.1%	2.04	1.89	1.74	1.60	1.47
7.2%	2.15	2.00	**1.85**	1.71	1.57
7.3%	2.26	2.11	1.96	1.81	1.67
7.4%	2.38	2.22	2.06	1.92	1.78

APPENDIX

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

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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%.
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GBC AG is currently represented by its board members Manuel Hölzle (Chairman) and Jörg Grunwald.

The analysts responsible for this analysis are:
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Marcel Goldmann, M.Sc., Financial Analyst

Other person involved:
Manuel Hölzle, Dipl. Kaufmann, Head of Research

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