

publity AG

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

Update

RATING BUY
PRICE TARGET € 30.00
 Return Potential 51.8%
 Risk Rating High

POSITIVE LATE YEAR MOMENTUM CONTINUES

publity raised its full year guidance again to wrap up the year. Management now look for revenues and earnings to top 2017 results by 50% to 70% on an annualised basis (old: 20% to 30% above the 2017 level). Thanks to further fees generated from successful acquisitions and disposals, the company is now on track to deliver strong growth after underperforming last year and in H1 2018. We have adjusted our 2018 targets accordingly. The asset manager also announced plans to step into the landlord business next year in order to capture attractive rental income streams. Our DCF-based valuation now results in a fair value of €30 (old: €29). We maintain our Buy rating.

Positive headlines continue After a rough start to the year, publity capped off 2018 with its second guidance increase of Q4. Thanks to further successful property acquisitions and disposals, management now see revenues and earnings beating the prior year figures by 50% to 70%. The expected performance would represent a strong turnaround from the June profit warning that called for full year net income of some €10m. We have increased our 2018 estimates towards the lower end of updated guidance (Table 1 overleaf) and now target a €16m bottom line for this year (old: €13m). Despite the year end disposals, management expect assets under management (AuM) to remain near the €4.6bn level.

Diversifying operations publity also announced plans to move into the landlord business to capture attractive rental income streams and complement its asset management model. The wholly owned publity Investor GmbH will target modern office complexes and value-add assets in metropolitan locations with the goal of building a portfolio in the triple digit million Euro range in 2019. A successful entrance would provide steady recurring cash flow. publity AG fully subscribed to the subsidiary's €19.9m capital increase. We will incorporate assumptions for the landlord business when FY18 results based for the first time on IFRS are published.

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	23.83	41.58	23.57	35.18	38.49	44.26
Y-o-y growth	22.0%	74.5%	-43.3%	49.3%	9.4%	15.0%
EBIT (€m)	20.31	34.08	12.18	24.97	30.15	35.85
EBIT margin	85.2%	82.0%	51.7%	71.0%	78.3%	81.0%
Net income (€m)	12.80	23.32	10.00	16.15	20.07	24.12
EPS (diluted) (€)	2.27	3.86	1.65	2.67	3.32	3.99
DPS (€)	2.00	2.80	0.00	0.82	1.02	1.23
FCF (€m)	82.42	-16.36	-0.54	21.02	20.90	24.99
Net gearing	43.0%	35.5%	72.9%	-16.2%	-23.8%	-31.3%
Liquid assets (€m)	17.35	7.11	7.97	58.64	60.24	74.28

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, with a focus on commercial real estate in German metropolises such as Frankfurt and Munich. The company pursues a "manage-to-core" concept to leverage its expertise and drive growth.

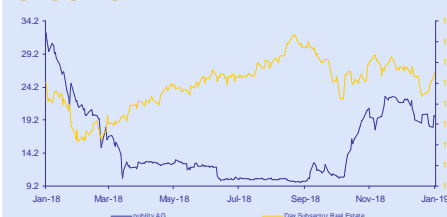
MARKET DATA

As of 09 Jan 2019

Closing Price	€ 19.76
Shares outstanding	9.83m
Market Capitalisation	€ 194.26m
52-week Range	€ 9.86 / 32.47
Avg. Volume (12 Months)	24,956

Multiples	2017	2018E	2019E
P/E	12.0	7.4	6.0
EV/Sales	9.8	6.5	6.0
EV/EBIT	18.9	9.2	7.6
Div. Yield	0.0%	4.2%	5.2%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	€ 14.37m
Current Assets	€ 63.20m
Intangible Assets	€ 0.70m
Total Assets	€ 116.86m
Current Liabilities	€ 3.25m
Shareholders' Equity	€ 62.09m

SHAREHOLDERS

Thomas Olek	62.0%
Free Float	38.0%



Table 1: Revised estimates

All figures in EUR '000	2018E			2019E		
	old	new	Variance	old	new	Variance
Revenue	29,395	35,184	19.7%	38,491	38,491	0.0%
Net Income	13,030	16,154	24.0%	20,065	20,065	0.0%
Margin (%)	44.3%	45.9%	-	52.1%	52.1%	-
EPS (diluted) (€)	2.15	2.67	24.0%	3.32	3.32	0.0%

Source: First Berlin Equity Research estimates

VALUATION MODEL

All figures in EUR '000	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	35,184	38,491	44,265	47,806	50,913	53,459	55,597	57,821
NOPLAT	16,855	20,352	24,199	25,810	27,503	28,615	29,844	30,656
(+) depreciation & amortisation	141	119	137	148	158	166	172	179
Net operating cash flow	16,996	20,472	24,336	25,958	27,661	28,781	30,016	30,835
(-) Total investments (CAPEX and WC)	-1,513	-478	-151	-572	-563	-398	-527	-383
(-) Capital expenditures	-211	-173	-199	-215	-229	-241	-250	-260
(-) Working capital	-1,301	-304	48	-357	-334	-158	-277	-123
Free cash flows (FCF)	15,483	19,994	24,185	25,386	27,097	28,383	29,489	30,452
PV of FCF's	15,483	18,137	19,840	18,834	18,181	17,222	16,182	15,112

All figures in thousands	WACC	Terminal EBIT margin							
		70.8%	72.8%	74.8%	76.8%	78.8%	80.8%	82.8%	
PV of FCFs in explicit period	199,676	7.6%	41.45	42.28	43.10	43.93	44.76	45.59	46.41
PV of FCFs in terminal period	113,337	8.6%	36.04	36.67	37.31	37.95	38.58	39.22	39.85
Enterprise value (EV)	313,013	9.6%	31.95	32.45	32.95	33.45	33.95	34.45	34.95
(+) Net cash / - net debt (pro-forma)	18,639	10.6%	28.76	29.16	29.56	29.96	30.35	30.75	31.15
(+) Investments / minority interests	0	11.6%	26.19	26.51	26.84	27.16	27.48	27.80	28.13
Shareholder value	331,652	12.6%	24.08	24.35	24.61	24.87	25.14	25.40	25.66
Fair value per share (€)	30.00	13.6%	22.32	22.53	22.75	22.97	23.19	23.40	23.62

	WACC	Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	12.8%	7.6%	39.47	40.75	42.22	43.93	45.95	48.37	51.32
Pre-tax cost of debt	6.0%	8.6%	34.89	35.78	36.79	37.95	39.28	40.82	42.65
Tax rate	32.5%	9.6%	31.28	31.93	32.64	33.45	34.37	35.41	36.61
After-tax cost of debt	4.1%	10.6%	28.37	28.85	29.37	29.96	30.61	31.34	32.16
Share of equity capital	75.0%	11.6%	25.98	26.34	26.73	27.16	27.63	28.16	28.75
Share of debt capital	25.0%	12.6%	23.98	24.25	24.55	24.87	25.23	25.62	26.05
WACC	10.6%	13.6%	22.28	22.49	22.72	22.97	23.24	23.53	23.86

*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	2015	2016	2017	2018E	2019E	2020E
Revenues	23,826	41,577	23,571	35,184	38,491	44,265
Other income	3,032	272	87	409	300	300
Total output	26,858	41,849	23,658	35,593	38,791	44,565
Cost of goods sold	-567	-160	-3,314	-484	-1,925	-2,213
Gross profit	26,291	41,689	20,344	35,109	36,867	42,352
Personnel expenses	-2,052	-2,066	-1,974	-3,124	-2,694	-2,656
Other OpEx	-4,447	-6,746	-7,160	-8,115	-5,056	-4,594
Other operating income	811	1,388	1,160	1,241	1,155	885
EBITDA	20,603	34,265	12,370	25,111	30,271	35,987
Depreciation & amortisation	-294	-185	-189	-141	-119	-137
Operating income (EBIT)	20,309	34,080	12,181	24,971	30,152	35,850
Net financial result	-286	-1,280	-1,660	-1,772	-1,225	-919
Income from long-term loans	0	1,440	3,965	815	800	800
Pre-tax income (EBT)	20,023	34,240	14,486	24,014	29,727	35,731
Income taxes	-7,224	-10,915	-4,490	-7,860	-9,661	-11,613
Net income / loss	12,799	23,325	9,996	16,154	20,065	24,118
Diluted EPS (in €)	2.27	3.86	1.65	2.67	3.32	3.99
Ratios						
Gross margin on revenues	97.6%	99.6%	85.9%	98.6%	95.0%	95.0%
EBITDA margin on revenues	86.5%	82.4%	52.5%	71.4%	78.6%	81.3%
EBIT margin on revenues	85.2%	82.0%	51.7%	71.0%	78.3%	81.0%
Net margin on revenues	53.7%	56.1%	42.4%	45.9%	52.1%	54.5%
Tax rate	36.1%	31.9%	-31.0%	-32.7%	32.5%	32.5%
Expenses as % of revenues						
Personnel expenses	8.6%	5.0%	8.4%	8.9%	7.0%	6.0%
Other OpEx	18.7%	16.2%	30.4%	23.1%	13.1%	10.4%
Depreciation & amortisation	1.2%	0.4%	0.8%	0.4%	0.3%	0.3%
Y-Y Growth						
Revenues	n.a.	74.5%	-43.3%	49.3%	9.4%	15.0%
Operating income	n.a.	67.8%	-64.3%	105.0%	20.7%	18.9%
Net income/ loss	n.a.	82.2%	-57.1%	61.6%	24.2%	20.2%



BALANCE SHEET

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Assets						
Current assets, total	31,338	43,754	53,489	105,098	107,195	121,332
Cash and equivalents	17,348	7,106	7,967	58,639	60,160	74,121
Trade receivables	6,032	33,408	39,874	40,485	40,728	40,973
Receivables from affiliates	965	2,892	2,627	2,892	3,164	3,032
Other ST assets	6,993	348	3,021	3,081	3,143	3,206
Non-current assets, total	39,930	58,052	56,525	52,095	52,149	52,211
Property, plant & equipment	443	349	403	473	527	589
Goodwill & other intangibles	23	9	1	1	1	1
Financial assets	1,483	3,044	3,024	3,024	3,024	3,024
Long-term loans to investees	37,279	54,107	52,676	48,176	48,176	48,176
Other non-current assets	702	543	421	421	421	421
Total assets	71,268	101,806	110,014	157,193	159,345	173,543
Shareholders' equity & debt						
Liabilities, total	33,436	32,577	52,068	41,662	31,810	31,908
Trade payables	289	1,268	823	398	527	606
Convertible note	30,000	30,000	50,000	40,000	30,000	30,000
Financial debt	1,400	0	0	0	0	0
Liabilities to affiliates	13	153	575	584	592	601
Other current liabilities	1,734	1,156	670	680	690	701
Provisions, total	6,580	4,699	264	277	291	306
LT provisions	241	195	264	277	291	306
Deferred tax liabilities	4,939	4,504	0	0	0	0
Shareholders' equity	32,652	64,530	57,682	115,255	127,244	141,329
Total consolidated equity and debt	72,668	101,806	110,014	157,193	159,345	173,543
Ratios						
Current ratio (x)	0.9	1.3	1.0	2.5	3.4	3.8
Net debt	14,052	22,894	42,033	-18,639	-30,160	-44,121
Net gearing	43%	35%	73%	-16%	-24%	-31%
Equity ratio	46%	63%	52%	73%	80%	81%
Return on equity (ROE)	39.2%	36.1%	17.3%	14.0%	15.8%	17.1%
Capital employed (CE)	7,174	35,390	42,082	43,454	43,893	43,989
Return on capital employed (ROCE)	283%	96%	29%	57%	69%	81%



CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Pre-tax income	12,799	34,240	14,486	24,014	29,727	35,731
Depreciation and amortisation	294	185	189	141	119	137
Change in trade rec & other assets	42,759	-22,499	-8,752	-937	-576	-175
Change in payable & other liabilities	26,900	60	-4,944	-393	162	113
Net interest expense	0	1,280	1,660	1,772	1,225	919
Operating cash flow	82,752	13,266	2,639	24,596	30,657	36,724
Tax expense	-300	-11,162	-4,394	-7,861	-9,661	-11,613
Net operating cash flow	82,452	2,104	-1,755	16,736	20,996	25,112
CapEx	-28	-77	-235	-211	-173	-199
Change in financial assets	0	-18,389	1,451	4,500	0	0
Cash flow from investing	-28	-18,466	1,216	4,289	-173	-199
Free cash flow (FCF)	82,424	-16,362	-539	21,025	20,822	24,913
Equity inflow, net	14,000	19,800	0	41,420	0	0
Debt inflow, net	30,000	-1,400	20,000	-10,000	-10,000	0
Dividends paid	0	-11,000	-16,940	0	-8,077	-10,033
Net interest paid	0	-1,280	-1,660	-1,772	-1,225	-919
Cash flow from financing	44,000	6,120	1,400	29,648	-19,302	-10,951
Net cash flows	126,424	-10,242	861	50,672	1,521	13,961
Cash, start of the year	2,663	17,348	7,106	7,967	58,639	60,160
Cash, end of the year	129,087	7,106	7,967	58,639	60,160	74,121
EBITDA/share (in €)	0.00	5.66	2.04	2.55	3.08	3.66
Y-Y Growth						
Operating cash flow	n.a.	-97.4%	n.m.	n.m.	25.5%	19.6%
Free cash flow	n.a.	n.m.	n.m.	n.m.	-1.0%	19.6%
EBITDA/share	n.a.	n.m.	-63.9%	24.9%	20.5%	18.9%

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	Today	€19.76	Buy	€30.00

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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.

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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: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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