

publity AG

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

Update

RATING **ADD**
PRICE TARGET **€ 44.00**
 Return Potential 18.9%
 Risk Rating High

EARNINGS PRIMED TO DOUBLE IN 2019

publity announced guidance for 2019. The company expects to double the prior year net IFRS-income result. The bottom line is projected to approach €50m, thanks to strong developments in core asset management and nascent property management operations. publity has switched over to IFRS reporting, which we have applied to our forecasts and valuation model. We also incorporate initial income streams from own-portfolio investment properties now held on the balance sheet and believe the landlord operations are primed to deliver significant value creation. Our overhauled model results in a €44 price target (old €30). After the strong share price performance (+85% YTD), our rating is now Add (old: Buy).

Bolting on the new business segment We look for asset management to remain the core business of the company—assets under management (AuM) now totals ~€5bn (old €4.6bn)—while we expect the new property management segment to chiefly focus on cash recycling spurred by opportunistic disposals. This approach differs from most of the large listed commercial landlords, who mostly pursue a Buy and Hold strategy to drive long-term rental income and FFO (funds from operations). We believe publity's well established network and robust data base, which includes over 8,500 properties, will allow the company to cherry-pick assets to plug into its Buy and Sell strategy to generate attractive disposal and revaluation gains.

Leveraging good market position We like publity for its position in the German commercial property space. The sector continues to thrive spurred by strong occupier demand, which should allow publity to leverage its sizable proprietary database to execute. The company benefits from a strong balance sheet giving management good financial flexibility to manoeuvre swiftly in a fast-paced environment. Our revised model in accordance with IFRS reporting incorporates maiden projections for the own property management operations. We expect this segment to generate much stronger earnings than previously forecasts, which were based only on asset management operations. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019E	2020E	2021E
Revenue (€m)	29.25	37.22	38.54	44.32	48.75
Y-o-y growth	n.a.	27.2%	3.5%	15.0%	10.0%
EBIT (€m)	11.90	30.82	80.26	86.96	90.49
EBIT margin	40.7%	82.8%	208.3%	196.2%	185.6%
Net income (€m)	10.59	24.53	48.84	53.06	55.05
EPS (diluted) (€)	1.64	2.95	4.41	4.79	4.97
DPS (€)	0.00	1.50	2.48	2.70	2.80
FCF (€m)	-2.51	-18.76	-293.85	42.06	45.05
Net gearing	118.7%	24.6%	226.6%	187.5%	159.0%
Liquid assets (€m)	9.53	27.95	13.40	42.38	71.56

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 and also invests in its own portfolio of office properties.

MARKET DATA

As of 04 Jun 2019

Closing Price	€ 37.00
Shares outstanding	9.83m
Market Capitalisation	€ 363.75m
52-week Range	€ 9.86 / 37.00
Avg. Volume (12 Months)	21,512

Multiples	2018	2019E	2020E
P/E	12.5	8.4	7.7
EV/Sales	10.6	10.2	8.9
EV/EBIT	12.8	4.9	4.5
Div. Yield	4.1%	6.7%	7.3%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2018

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

SHAREHOLDERS

Thomas Olek	72.0%
Free Float	28.0%



Bottom line set to double Y/Y The company published initial guidance for 2019 calling for net income to nearly double on an annualised basis to ~€50m. We believe the lion's share of this performance spike owes to the opportunistic disposal of the Access office tower in Frankfurt. This will result in a substantial disposal gain of some €47m to go along with the asset management revenue streams.

Table 1: New IFRS forecasts (old: HGB) including property management assumptions

In €'000	2019E	2020E	2021E
Revenue	38,537	44,317	48,749
EBITDA	81,296	88,155	91,802
(-) Disposal gains	47,416	48,790	49,078
(-) Revaluation gains	9,540	10,360	10,779
Adjusted EBITDA	24,340	29,005	31,945
<i>Margin</i>	63%	65%	66%
Net income	48,837	53,057	55,054

Source: First Berlin Equity Research estimates

Building a high performance office portfolio Last year, publity signaled plans to leverage its strong market position in the German commercial property space by acquiring select office assets as investment properties. The company exited 2018 with €17m in investment properties on its balance sheet traced to the acquisition of a property in Mülheim. publity has added four more assets to its stable of properties YTD. These include two premium office towers in Frankfurt am Main. The portfolio now has a GAV of ~€0.5bn. For now, we assume no further acquisitions this year and take a near-term conservative approach for portfolio expansion until the property management operations take shape and a track record is visible.

Table 2: Commercial portfolio KPIs

Asset	Location	GAV (€m)	Vacancy (%)	WALT (Years)
Quattro	Essen	225	0	22
St Martin Tower	Frankfurt	146	1.4	5.4
Access Tower	Frankfurt	90	4.3	9.9
Parsevalstr.	Mülheim	17	100	0
Großmarkt	Leipzig	20	1.8	14.6

Source: First Berlin Equity Research, publity AG



IFRS balance sheet features higher equity ratio after equity raise The recently published 2018 IFRS balance sheet showed asset growth of 41% to €188m stemming mainly from the acquisition of investment properties and the cash injection from the cap hike. Net debt halved Y/Y and totaled €29m at year end. Last October, publity issued new equity at €10.70 per share for gross cash proceeds of €405m. The rights issue to shareholders included 3,781,250 new shares raising share capital to €9.8m. The equity ratio thus climbed to 64% in 2018 vs 41% at year end 2017.

Table 3: Financial highlights

in € '000	2018	2017	variance
Cash and liquid assets	27,953	9,534	193%
Investment properties	17,000	0	n.a.
Total assets	187,935	133,334	41%
Total debt	57,383	74,590	-23%
Net debt	29,430	65,056	-55%
Shareholders' equity	119,797	54,827	119%
Equity ratio	63.7%	41.1%	-

Source: First Berlin Equity Research, publity AG

We have assumed that the company financed acquisitions made so far this year at a 70% LTV (loan-to-value), but we look for this metric to drop significantly for future portfolio growth, due to recycled cash from disposals. To help finance the new segment, publity enlisted the Seoul-based Meritz Financial Group, IGIS Asset Management Co. Ltd, as financial partner in April.

Dividend policy back online After one hiatus, publity will pay a dividend on 2018 earnings. Plans for a €1.50 per share dividend were approved at the AGM on 16 May. This can be paid out in publity shares or cash. Some €7.2m (49%) of the planned €14.8m will be paid out against the 2018 net income result (€14.9m) in accordance with the covenants. The balance will be taken out of retained earnings (€17.7m) on the balance sheet, while remaining profits will be carried forward. publity CEO, Thomas Olek, has already stated his intentions to accept publity shares as pay out for his 72% stake. We expect the company to maintain construct to reward shareholders going forward.



VALUATION

publity published 2018 results in accordance with IFRS at last month's AGM in order to improve transparency. The timing of the switch is welcome, given the mixture of property management activities. We have converted our model accordingly and introduced "property management" to the company's traditional asset management operations.

publity's business activities are primarily driven by the German office market. Looking ahead, the sector should continue to see strong letting momentum as it continues to benefit from the strong economic environment and frenzied demand for workspace.

We expect disposal gains to top €47m this year to combine with €38m in asset management fees and revenues. In our view, the ~€500m commercial portfolio has substantial embedded upside to drive disposal and revaluation gains over the near term. These factors account for the substantial increase to our price target.

We have lowered our WACC to 9.6% (old: 10.5%) to reflect improved reporting transparency. Based on fully diluted shares outstanding of 11.07m, our new fair value estimate corresponds to €44 / share (old: €30). Our rating moves to Add (old: Buy), following the strong share price appreciation (+85% YTD).

All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	38,537	44,317	48,749	52,649	56,335	59,715	62,700	65,208
NOPLAT	54,172	58,697	61,078	41,713	37,865	39,590	40,384	41,676
(+) depreciation & amortisation	1,040	1,197	1,316	1,422	1,521	1,612	1,693	1,761
Net operating cash flow	55,213	59,894	62,394	43,134	39,386	41,202	42,077	43,437
(-) Total investments (CAPEX and WC)	-2,075	-1,237	-1,424	-1,563	-1,682	-1,796	-1,902	-1,997
(-) Capital expenditures	-1,156	-1,330	-1,462	-1,579	-1,690	-1,791	-1,881	-1,956
(-) Working capital	-919	92	38	17	8	-5	-21	-40
Free cash flows (FCF)	53,138	58,656	60,970	41,572	37,703	39,406	40,175	41,441
PV of FCF's	50,423	50,767	48,131	29,933	24,761	23,604	21,950	20,651

All figures in thousands	WACC	Terminal EBIT margin							
		81.7%	83.7%	85.7%	87.7%	89.7%	91.7%	93.7%	
PV of FCFs in explicit period	337,065	6.6%	63.98	65.19	66.40	67.61	68.82	70.03	71.24
PV of FCFs in terminal period	180,181	7.6%	54.51	55.42	56.33	57.23	58.14	59.05	59.96
Enterprise value (EV)	517,246	8.6%	47.63	48.33	49.04	49.74	50.44	51.14	51.84
(+) Net cash / - net debt	-29,431	9.6%	42.40	42.95	43.50	44.06	44.61	45.17	45.72
(+) Investments / minority interests	0	10.6%	38.27	38.71	39.16	39.60	40.05	40.49	40.93
Shareholder value	487,815	11.6%	34.92	35.29	35.65	36.01	36.37	36.73	37.09
Fair value per share (€)	44.00	12.6%	32.15	32.45	32.75	33.04	33.34	33.63	33.93

	WACC	Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	11.5%	6.6%	59.17	61.53	64.30	67.61	71.63	76.63	83.00
Pre-tax cost of debt	6.0%	7.6%	51.67	53.27	55.10	57.23	59.75	62.74	66.39
Tax rate	32.5%	8.6%	45.90	47.02	48.29	49.74	51.40	53.33	55.61
After-tax cost of debt	4.1%	9.6%	41.32	42.13	43.04	44.06	45.21	46.52	48.03
Share of equity capital	75.0%	10.6%	37.60	38.20	38.86	39.60	40.42	41.35	42.39
Share of debt capital	25.0%	11.6%	34.50	34.96	35.46	36.01	36.61	37.28	38.03
WACC	9.6%	12.6%	31.90	32.25	32.63	33.04	33.50	33.99	34.54

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

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Revenues	29,249	37,217	38,537	44,317	48,749
Cost of goods sold	-3,626	-6,793	-4,624	-5,318	-5,850
Other income	287	1,294	300	300	300
Gains from property disposals	0	0	47,416	48,790	49,078
Personnel expenses	-2,322	-2,024	-2,165	-2,317	-2,479
Other OpEx	-9,917	-7,675	-7,707	-7,977	-8,775
Revaluation gains	0	8,940	9,540	10,360	10,779
EBITDA	13,671	30,959	81,296	88,155	91,802
Depreciation & amortisation	-1,775	-143	-1,040	-1,197	-1,316
Operating income (EBIT)	11,896	30,816	80,255	86,959	90,486
Net financial result	6,966	5,604	-10,488	-11,163	-11,838
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	69,767	75,796	78,648
Income taxes	-5,136	-8,826	-20,930	-22,739	-23,594
Minority interests	-97	-85	0	0	0
Net income / loss	10,592	24,531	48,837	53,057	55,054
Basic EPS (in €)	1.75	3.26	4.97	5.40	5.60
Diluted EPS (in €)	1.64	2.95	4.41	4.79	4.97
Adjusted EBITDA	13,671	22,019	24,340	29,005	31,945
Ratios					
Adjusted EBITDA margin	46.7%	59.2%	63.2%	65.4%	65.5%
Net margin	36.2%	65.9%	126.7%	119.7%	112.9%
Tax rate	32.5%	26.4%	30.0%	30.0%	30.0%
Expenses as % of revenues					
Personnel expenses	7.9%	5.4%	5.6%	5.2%	5.1%
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%	3.5%	15.0%	10.0%
Operating income	-65.1%	159.0%	160.4%	8.4%	4.1%
Net income/ loss	-54.1%	131.6%	99.1%	8.6%	3.8%



BALANCE SHEET

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Assets					
Current assets, total	45,456	78,833	64,436	93,574	122,916
Cash and equivalents	9,534	27,953	13,398	42,376	71,559
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	461,478	483,849	505,852
Investment properties	0	17,000	368,000	388,960	409,518
Property, plant & equipment	5,167	7,842	7,958	8,091	8,237
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	525,914	577,423	628,768
Shareholders' equity & debt					
Current liabilities, total	22,136	20,445	19,748	20,064	20,328
Trade payables	1,930	2,304	1,520	1,748	1,923
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	352,332	374,887	397,442
LT financial debt	55,599	45,015	349,600	372,100	394,600
Deferred tax	461	2,678	2,732	2,787	2,842
Shareholders' equity	55,138	119,797	153,834	182,472	210,997
Total consolidated equity and debt	133,334	187,935	525,914	577,423	628,768
Ratios					
Current ratio (x)	2.1	3.9	3.3	4.7	6.0
Net debt	65,056	29,431	348,571	342,093	335,410
Net gearing	118%	25%	227%	187%	159%
Equity ratio	41%	64%	29%	32%	34%
Return on equity (ROE)	19.5%	20.5%	31.7%	29.1%	26.1%
Capital employed (CE)	35,725	39,394	40,429	40,470	40,578



CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Net income	10,689	24,615	48,837	53,057	55,054
Depreciation and amortisation	555	710	1,040	1,197	1,316
Revaluation gains	0	-8,940	-9,540	-10,360	-10,779
Disposal income	0	-376	-47,416	-48,790	-49,078
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	-643	371	320
Net interest expense	-719	-1,829	10,488	11,163	11,838
Operating cash flow	8,625	20,972	2,608	6,478	8,511
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	-460,000	-150,000	-150,001
Inflow from property disposals	0	0	165,956	188,190	189,300
CapEx	-236	-167	-1,156	-1,330	-1,462
Change in financial assets	0	511	-1,259	-1,279	-1,298
Cash flow from investing	-11,136	-39,732	-296,460	35,582	36,538
Free cash flow (FCF)	-2,511	-18,760	-293,852	42,060	45,049
Equity inflow, net	0	40,450	0	0	0
Debt inflow, net	19,280	-2,826	304,585	22,500	22,500
Repayment of financing leases	-293	-446	0	0	0
Interest result	0	0	-10,488	-11,163	-11,838
Dividends paid	-16,940	0	-14,800	-24,419	-26,528
Cash flow from financing	2,046	37,178	279,297	-13,082	-15,866
Net cash flows	-464	18,419	-14,554	28,978	29,182
Cash, start of the year	9,999	9,534	27,953	13,398	42,376
Cash, end of the year	9,534	27,953	13,398	42,376	71,559
EBITDA/share (in €)	2.26	3.76	7.34	7.96	8.29

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	Today	€37.00	Add	€44.00

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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 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

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

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