

publity

Real estate

12 November 2021

Changes to group structure on the horizon

On 19 October 2021, publity announced a European consortium led by a Luxembourg investment company has signed a Letter of Intent to become the new majority shareholder of PREOS (publity's property investment subsidiary) in exchange for contributing a Luxembourg property portfolio to GORE (PREOS's subsidiary) and measures to finance PREOS's portfolio expansion. publity will continue to serve as an asset manager for PREOS, with management targeting PREOS portfolio growing by at least €3bn by 2023 (compared to the last reported portfolio size of €0.9bn at end-2020).

Net income in line with guidance for FY21

In H121 publity reported €11.6m revenue, almost entirely from asset management activities. With limited contribution from other operations and reduced personnel expenses, net income for the period reached €4.6m. This slightly exceeds half of the lower end of the re-iterated management guidance that targets net income for the year of €9m to €12m. H121 was the first interim report published since opting out of IFRS consolidated reporting (publity now provides only standalone HGB, German accounting standard, figures) and publity has not provided comparable standalone HGB data for H120.

Best quarter in German real estate since Q120

The German real estate investment market transaction volume in Q321 reached €26.7bn, according to Jones Lang LaSalle (JLL), the best quarterly result since the COVID-19 pandemic began. The living segment remains the main contributor with c 38% share of year-to-date transactions, however, the office sector is also picking up reporting double-digit quarter-on-quarter increases throughout the year. The recovery is attributable mainly to single-asset transactions, but with the potential return of international investors to the German market, large portfolio deals could also pick up.

Valuation: Trading at significant discount to peers

Based on Refinitiv data consisting of estimates of a single analyst (First Berlin), publity's shares trade at a significant P/E discount to its peer group, including real estate asset managers and investors. We believe this could be at least partially attributable to the planned changes to group structure and reporting.

Historical financials						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	23.6	14.6	1.67	0.0	15.3	N/A
12/18	34.7	21.6	1.52	1.5	16.8	5.9
12/19	34.1	312.0	20.47	0.0	1.3	N/A
12/20	16.0	12.0	0.81	0.0	31.6	N/A

Source: publity accounts. Note: Standalone figures in accordance with HGB.

Price €25.6
Market cap €381m

Share price graph



Share details

Code	PBY
Listing	Deutsche Börse Scale
Shares in issue	14.9m
Reported net debt at 30 June 2021	€64.2m

Business description

publity is a German real estate asset manager, focused on office properties in top locations. It benefits from c 20 years' experience and an extensive database with c 9,500 properties covering nearly 75% of the relevant market. It is the majority shareholder of listed real estate investor PREOS.

Bull

- Experienced player with a narrow focus on office properties only.
- Planned expansion of the property portfolio of PREOS.
- Extensive database monitoring c 9.5k properties

Bear

- Potential long-term effect of a hybrid work model on the office real estate market.
- Declining exposure to real estate investment activities from dilution of its stake in PREOS.
- Potential effect from the BaFin investigation.

Analysts

Milosz Papst	+44 (0) 20 3681 2519
Michał Mierzwia	+44 (0) 20 3077 5700

financials@edisongroup.com
[Edison profile page](#)

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Healthy results on asset management activity

The H121 report was the first interim financial statement published using the German accounting standards (HGB) so the company used full FY20 figures as a reference, rather than providing figures for the comparable period in 2020. Moreover, PREOS has not yet published its H121 results (scheduled for 26 November 2021). Therefore, the top-down analysis of year-on-year developments of the income statement is not possible.

publity moved all of its property investment business activities to its subsidiaries, so H121 revenue of €11.6m is almost exclusively income from asset management. We believe the majority of it is attributable to management services on behalf of other group entities (PREOS in particular). In H121, the company reported two asset disposals in the period: WestendCarree, an office property in Frankfurt with 30.6k sqm leasable space and another office property in Bad Homburg with 5.2k sqm leasable space. It also announced new lettings and prolonged lease agreements on behalf of the clients in H121, however, without any significant asset management mandate wins. On 22 September 2021 the company announced the successful disposal of eight office properties from three of its closed-end real estate funds. The assets sold are single- and multi-tenant properties with a total leasable space of 37.6k sqm. Although the details of the deal were not disclosed, it will be recorded in publity's H221 results through transaction fees.

In H121, publity has also recorded €1.0m in other operating income (including €0.8m of reduction in allowances for bad debt) compared to €34.4m in FY20 total (driven by €33.5m from financial assets disposals). Similarly, other operating expenses amounted to just €5.6m (vs €39.5m in FY20) with €1.7m attributable to losses on disposals of financial assets, €1.1m to write-downs on receivables and €0.8m to legal expenses.

We note that although the average number of employees remained stable at 22, the company introduced new salary structures that helped limit personnel costs: the €0.7m reported in H121 constitutes just c 37% of FY20 total. In the analysed period, publity reported a €0.9 net financial result as €2.7m of interest paid has been more than offset by the income from affiliated entities (€3.6m) including mainly interest on PREOS convertible bonds. H121 net income came in at €4.6m and management reiterated its expectations for full FY21, targeting sales slightly below FY20 and net income for the year ranging from €9m to €12m.

Exhibit 1: Financial highlights

€000s	H121	FY20
Revenue	11,586	16,009
Other operating income	1,017	34,428
Cost of materials	(1,113)	(3,057)
Gross profit	11,490	47,380
Personnel expenses	(694)	(1,896)
D&A	(133)	(145)
Other operating expenses	(5,644)	(39,466)
EBIT	5,019	5,874
Income from a profit and loss transfer agreement	0	682
Income from other securities and from loans held as financial assets	3,550	8,928
Other interest and similar income	0	684
Interest and similar expenses	(2,689)	(4,123)
Financial result	860	6,171
Earnings before tax	5,880	12,045
Income tax and other taxes	(1,291)	30
Net income	4,589	12,075

Source: publity accounts

New shareholder and funding measures in PREOS

On 19 October 2021, publity announced signing of a Letter of Intent to sell a majority stake in its real estate investment subsidiary PREOS to a consortium of established European insurance firms,

led by an investment company from Luxembourg. As a result, it has abandoned negotiations with the Asian conglomerate on the acquisition of a PREOS stake announced in early 2021 and initially delayed until after the publication PREOS's FY20 accounts. Moreover, pubilty will not revisit the public offering of PREOS shares and tokens that it announced in FY20, described in our [previous note](#). We note that as part of these transactions (which were put on hold in early 2021 due to the negotiations with the Asian conglomerate), pubilty sold 398,894 PREOS shares (0.4% of share capital) for €2.8m and 1.613 tokens for €14k. PREOS has also withdrawn from its plans to issue €400m bonds and 10% cash capital increase and from its future dividend policy introduced in 2020 (suspended from late 2020).

Assuming a positive outcome of the ongoing due diligence process, the transaction will be executed as a three-step process. First, a portfolio of Luxembourg real estate project developments consisting of an equity investment holding and a debt fund with an estimated market value in excess of €1bn will contribute to PREOS's subsidiary GORE against issuance of new GORE shares. Because GORE is a listed company, the value of new shares will be based on the blend of a valuation model and GORE's share price, which is €2.18 after 61% ytd decline (PREOS expects this to fall to €2–3 range). Next, the new GORE shares will be transferred to PREOS against issuance of new PREOS shares, also valued using a blended method (which it expects at €4.5 to €5.5 per share). PREOS shares are trading at €2.98 after 57% ytd decline. The final step will be the placement of the aforementioned new GORE shares to external investors against cash contributions, which will be used to expand PREOS's portfolio (targeting an increase by at least €3bn by the end of 2023, compared to portfolio size at end-2020 of €0.9bn). All the necessary shareholder approvals are planned for the beginning of 2022.

As part of this transaction, GORE will sell its German assets and shift its investment focus entirely to commercial real estate projects in Luxembourg. It will also transfer its registered office there and change its name to PREOS Luxembourg. An additional listing on the Luxemburg stock exchange is also being considered. After the changes to the group structure, GORE will add one position to the management board and two to the supervisory board. Similarly, PREOS will seek to fill two supervisory board positions and its executive board. We note, however, that negotiations with Thomas Olek, the largest pubilty shareholder with c 48% stake at 30 June 2021, regarding the assumption of a management board position will be discontinued.

We note that withdrawal of the PREOS future dividend policy could limit pubilty's prospective income from associates (on a standalone basis), which under HGB reporting includes profit share agreements and interest on convertible bonds held by the parent company. In contrast, pubilty will presumably continue to serve as an asset manager for PREOS, which would be reflected in its fee revenues. As PREOS plans rapid portfolio expansion in the next few years, this would effect both transaction and management fees.

German real estate market rebounded in Q321

After a relatively muted H121, with transaction volume of €34.1bn (22% below the H120), the German real estate investment market picked up in Q321, reaching a volume of €26.7bn, according to JLL. This figure is not only the best quarterly result since the COVID-19 pandemic began (just 4.3% below Q120) but is also well above five-year quarterly average of €19.7bn. It brought the nine-month total to €60.8bn, which is 4.6% higher than the nine-month result in 2020. We note, that according to JLL, the rebound was driven by seven largest German cities, as their transaction volume of €35.9 recorded till end-September 2021 exceed previous year nine months total by 35.9% (Berlin alone reported c 91% y-o-y increase).

Although the broad living sector (including residential properties, student housing, microliving and elderly care homes) remains sought after, with c 38% share in total transaction volume over nine months of 2021, the office real estate (27% share) is also gaining momentum. While in Q121 the

investment volume of the office sector fell just short of €4.0bn level, it increased to €5.9bn in Q221 and then further to €6.5bn in Q321. According to JLL, the market for large office properties has already improved, with 35 deals worth more than €100m each completed during the first three quarters of 2021 (slightly below 2020 annual total), including €1.4bn sale of a T1 office building in Frankfurt. While single-asset transactions recorded a c 29% y-o-y increase in total volume to the end of September 2021, the portfolio deals are yet to return to the previous year level (17% y-o-y decline). JLL sees an opportunity for the office segment in the potential return of international institutional investors to the German market, according to JLL estimates, they hold c US\$370bn to be deployed into global real estate investment market.

Valuation

Although publicly only reports standalone figures that partially capture the earnings of subsidiaries (through dividends and profit-sharing agreements), the Refinitiv consensus (based on First Berlin forecasts only) includes some consolidated estimates. Therefore, we compare publicly's valuation with a peer group including asset managers and real estate investors, based on P/E multiples for 2021e and 2022e. As the company only reports net debt of the parent company, we were unable to use any valuation metrics based on enterprise value. publicly trades at significant discount to peers, which could be at least partially attributable to the planned changes to group structure and reporting.

Exhibit 2: Peer group comparison

Company	Market cap (€m)	P/E (x)		
		2021e	2022e	2023e
Corestate Capital	329	5.1	3.9	3.2
Patrizia	2,027	27.9	23.4	20.6
TLG Immobilien	3,558	14.1	12.4	11.9
Asset managers average		15.7	13.2	11.9
Premium/(discount)		(67%)	(39%)	
CA Immobilien Anlagen	4,164	14.1	14.0	13.0
IMMOFINANZ	2,608	14.7	17.8	16.9
DIC Asset	1,317	16.9	16.8	16.7
Demire	449	17.0	7.7	6.0
Real estate investors average		15.7	14.1	13.2
publicly	382	5.1	8.1	
Premium/(discount)		(67%)	(42%)	

Source: Refinitiv data at 12 November 2021 Note: Estimates for publicly are based on one analyst from First Berlin.

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