EDISON

Scale research report - Update

publity

Real estate asset management

01 September 2017

New mandates secure future growth

publity's H117 earnings momentum reflects both the ability to leverage its asset management expertise (AUM increased to €3.8bn from €3.2bn at end-2016) and its good cost discipline (OPEX down 11.2% y-o-y). New institutional mandates received ytd, coupled with a solid project acquisition pipeline should assist the company in achieving the AUM targets set for FY17e and FY18e at €5.2bn and €7.0bn, respectively. The stock currently trades at a FY17e P/E ratio of 6.1x, implying a 62% discount to the peer group. The stock offers an attractive dividend yield of 8% based on current year's DPS consensus estimates.

Good preliminary results confirmed

publity reaffirmed its H117 preliminary results published in July and reported an EBIT improvement of 25.3% y-o-y to €8.1m and sales growth of 10.5% to €12.9m on the back of solid recurring asset management fees and lower operating costs (down 11.2% y-o-y despite the company recognising costs from the convertible bonds private placement in May). EPS was up by 31.9% y-o-y to €0.91 from €0.69 in H116. After accounting for the additional €20m of convertible bonds on the balance sheet, the net debt/equity ratio increased to 82% from 35% in FY16.

Positive trends to continue into H217 and 2018

Management confirmed its FY17 and FY18 AUM targets at €5.2bn and €7.0bn respectively, the achievement of which should be largely driven by 1) the low-billion-euro mandate announced in April from a South American investor; 2) the Consus Commercial Property mandate; 3) good property acquisition pipeline; and 4) publity's expanding NPL portfolio (now at €3.2bn). On 15 August, the company announced AUM had now reached €4.0bn (compared to €3.8bn by end-June and €3.2bn at end-2016).

Valuation: Considerable discount to peers

publity trades at a P/E ratio of 6.1x and 5.3x based on FY17e and FY18e consensus earnings, respectively. This represents c 60% discount to the corresponding peer group multiples (15.9x and 14.3x, respectively). Coupled with the highest dividend yield within the German real estate fund management comparable group (8.0% for this year, growing to 9.5% in FY18e), this implies an attractive valuation.

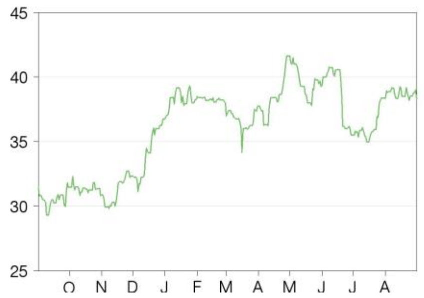
Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	23.8	19.9	2.27	2.00	17.3	5.1
12/16	41.6	34.4	3.81	2.80	10.3	7.1
12/17e	61.5	46.7	6.48	3.14	6.1	8.0
12/18e	63.3	53.4	7.43	3.72	5.3	9.5

Source: publity accounts. Please note that publity multiples are calculated based on the average of forecasts from Baader Bank and Quirin Bank (as per Bloomberg).

Price	€39.2
Market cap	€237m

Share price graph



Share details

Code	PBY
Listing	Deutsche Börse Scale
Shares in issue	6.05m
Last reported net debt as at 30 June 2017	€43.6m

Business description

publity is an asset manager with a focus on German office buildings. It has a 17-year track record as an investor in commercial real estate in larger German cities and currently manages a portfolio worth €4.0bn.

Bull

- Highest dividend yield in the sector.
- Wide P/E discount to peers.
- Focus on one area of property market.

Bear

- Ambitious growth plans.
- Dependent on banks for property sourcing.
- Low interest rate environment could end.

Analyst

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Financials: H117 results released

publity confirmed its preliminary H117 figures announced on 18 July, with EBIT up 25.3% y-o-y to €8.1m and sales improving by 10.5% to €12.9m (no consensus estimates were available). These results were particularly driven by higher recurring income from the asset management business. Furthermore, operating costs declined by 11.2% on the back of the lower material costs (down 76.1% to €0.1m), other operating expenses (down 6.1% y-o-y to €4.3m), mainly the disposal costs related to the real estate properties under management and costs associated with the private placement of convertible bonds (in H116 this line included the costs of capital increase), and personnel costs (down 10.7% y-o-y to €0.9m despite average headcount remaining constant at 26 employees). EPS of €0.91 was up 31.9% y-o-y vs €0.69 in H116, supported by the income from other securities and loans included in financial assets (€0.5m vs null in H116).

Exhibit 1: H117 results highlights

€'000s	H117	H116	y-o-y change
Revenue	12,851	11,627	10.5%
Other income related to ordinary activities	51	60	-14.9%
Cost of materials	-87	-366	-76.1%
Personnel expenses	-941	-1,055	-10.7%
Other operating expenses	-4,291	-4,570	-6.1%
D&A	-98	-94	4.9%
Income from profit transfer	608	855	-28.9%
EBIT	8,091	6,458	25.3%
EBIT margin (%)	63.0%	55.5%	743bp
PBT	8,095	6,033	34.2%
Income tax and other taxes	-2,584	-1,829	41.3%
Effective tax rate (%)	31.9%	26.3%	567bp
Net income	5,511	4,204	31.1%
Net margin (%)	42.9%	36.2%	672bp
EPS (€)	0.91	0.69	31.9%

Source: publity accounts

In line with preliminary figures published in July, publity reported AUM of €3.8bn in H117 (up from €3.2bn at end-FY16). However, on 15 August the company declared that AUM had increased even further to €4.0bn, highlighting the solid project acquisition pipeline.

The company was able to achieve several lease successes ytd, such as full occupancy in the mixed-use project ‘Am Boulevard’, as well as abc-Tower, Bredeney and Grossmarkt projects. Furthermore, the company was able to significantly increase the occupancy rate in the “Haus der Wirtschaftsförderung” in Duisburg (from 21% to 68%) and in the “Integrationscenter für Arbeit” in Gelsenkirchen (+9,000 sqm). These gains were supported by the broader office market conditions, with a solid upward trend on the local leasing market in H117 and the average vacancy rate in Germany’s top-7 cities (Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart) standing at 4.5% (down from 5.3% in H116), according to a recent Colliers report.

publity reaffirmed its AUM targets of €5.2bn and €7.0bn for FY17 and FY18, respectively. This should be assisted by the recent asset management mandates, which include the low-billion-euro mandate obtained in April from a South American investor, as well as the agreement with Consus Commercial Property (with which the company has already closed a deal valued in excess of €200m). Management believes that foreign institutional investors are still demonstrating high liquidity and strong interest in the German property market. Income from the expanding NPL portfolio (now standing at €3.2bn) will provide additional tailwinds in FY17. Consequently, the company continues to build mass, which should translate into a high level of recurring income from its asset management business.

With respect to leverage, publity’s net debt/equity ratio reached 82% in H117 (compared to 35% in FY16; net debt/LTM EBITDA of 1.2x vs 1.0x in FY16), with another €20m of the convertible bonds private placement completed in early May, bringing the total value outstanding to €50m. The bonds have a maturity until November 2020, a coupon rate of 3.5% and a conversion price of €47 per share (vs the last closing share price at €39.20). The proceeds will be used for publity's co-investments with institutional clients within JVs. The convertible bonds are currently trading at a slight premium to the face value (101.75% as of 21 August).

Valuation

In our view, the P/E multiple is the most appropriate method to value publity, as it is an asset manager rather than a property fund, and so it focuses on generating earnings rather than NAV growth. The stock is currently trading at 6.1x this year's earnings, down from 10.1x for FY16, supported by the consensus forecast earnings growth of 66% in FY17. Earnings growth is expected to slow to 15% in FY18, and so the P/E ratio falls further to just 5.3x one year out. We have compared publity to its German real estate fund management peers. As exhibited in the table below, the company trades at a wide discount to its peers on a P/E basis of 62% and 63% for FY17 and FY18, respectively. This is despite it having by far the highest (vs the peer group) forecast dividend yield, which is expected to increase to 8% this year and to nearly 10% in FY18e. The forecast yield is very attractive amid a low-interest, low-return environment, and adds to the stock's promising valuations.

Exhibit 2: Peer group comparison

	Market cap (m)	PE (x)			Dividend yield (%)		
		2017e	2018e	2019e	2017e	2018e	2019e
Corestate Capital	1,140.5 €	10.5	10.7	10.0	4.8%	5.8%	6.5%
Patrizia	1,381.1 €	23.0	18.7	16.5	1.2%	1.8%	2.0%
VIB Vermogen	585.5 €	13.9	13.0	12.3	2.8%	3.0%	3.3%
WCM Beteiligungs	428.9 €	10.8	11.3	10.4	3.5%	4.0%	4.3%
Peer group average		15.9	14.3	13.1	2.5%	2.9%	3.2%
publity	**237.2 €**	**6.1**	**5.3**	**4.5**	**8.0%**	**9.5%**	**11.2%**
Premium/(discount) to peer group		**-62%**	**-63%**	**-66%**	**-69%**	**-69%**	**-71%**

Source: Bloomberg. Note: Prices as at 21 August 2017. Please note that publity multiples are calculated based on the average of forecasts from Baader Bank and Quirin Bank (as per Bloomberg).

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