

UBM Development AG

Buy (unchanged) Target: Euro 44.00 (unchanged)

26 | May | 2020



Der Spezialist für Finanzaktien

■ Price (Euro) **36.70**
52 weeks range 50.80 / 23.60

■ Key Data

Country	Austria
Industry	Real Estate
Segment	Development (trading oriented)
ISIN	AT0000815402
WKN	852735
Reuters	UBMV.VI
Bloomberg	UBS.VI
Internet	www.ubm.at
Reporting Standard	IFRS
Fiscal Year	31/12
Market Cap (EUR million)	274.2
Number of shares (million)	7.47
Free Float	50.0%
Free Float MCap (million)	137.1
CAGR pre tax profit '19 - '22e	-0.2%

■ Multiples	2019	2020e	2021e	2022e
MarketCap/revenues	1.13	0.59	0.55	0.63
PE ratio	5.2	7.5	7.2	5.5
Dividend yield	6.0%	6.0%	6.0%	6.8%
Price-to-Book ratio	0.60	0.57	0.55	0.52

■ Key Data per Share (Euro)	2019	2020e	2021e	2022e
Earnings per share (EPS)	7.10	4.92	5.10	6.71
Dividends per share (DPS)	2.20	2.20	2.20	2.50
Book Value per share (BVpS)	61.14	63.86	66.76	70.97

■ Financial Data (Euro '000)	2019	2020e	2021e	2022e
Revenues	241,999	466,557	495,174	432,554
Operating profit (EBITDA)	74,966	62,049	68,702	82,873
Operating profit (EBIT)	71,451	57,495	63,714	77,853
Pre-tax profit (EBT)	70,512	51,153	54,010	70,152
Net profit (after minorities)	53,071	36,779	38,115	50,129
Adj. shareholders' equity	456,833	477,174	498,851	530,300
RoE after tax	12.0%	7.9%	7.8%	9.7%

■ Financial Calendar

AGM	28 May 2020
2Q report 2020	27 August 2020
SRC Forum Financials & Real Estate	10 September 2020

■ Main Shareholders

Syndicate Ortnet/ Strauss	38.8%
IGO Ortnet Gruppe	6.4%
J. Dickinger	5.0%
Management & Supervisory board	3.9%

■ Analysts

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Strong 1Q results are a good start to a year with significant impacts to come – pipeline rightsized to Euro 1.25bn in a worst case scenario L-shaped recovery – Buy and Euro 44.00 target price affirmed

Today, the company published the report for the first quarter of 2020 and invited to a conference call. The opening quarter was very successful and is a good start for a year that will see many impacts due to the Corona pandemic in the coming quarters. Total output hiked by more than 20% from almost Euro 72m to more than Euro 86m. The income from fair value adjustments was at Euro 70m (1Q 2019: Euro 7m) as a result of the sale of a 40% interest in a large-scale project, "Baubergestraße", in Munich, as part of the formed partnership with ARE. Other operating expenses significantly increased from Euro -7.9m to Euro -25.5m due to foreign exchange losses of almost Euro 18m linked to the Polish zloty and the Czech koruna. Including the increased cost of material, which are up from almost Euro -19m to more than Euro -31m, the operating profit (EBIT) more than tripled from Euro 12.5m to Euro 41.7m. The financial result improved from Euro -4.5m to Euro -2.3m, leading to an EBT of more than Euro 39m, about five-fold the amount of last year's almost Euro 8m. Tax expenses of the first quarter were significantly up at more than Euro -16m compared to last year's period due to a higher earnings contribution from Germany and tax effects from at-equity profits. Thus, the net profit after minorities quintupled from Euro 4.1m to Euro 20.5m. This translates into earnings per share of Euro 2.74 (1Q 2019: 0.55).

While the first quarter was very good, the impacts of the corona pandemic are expected from the second quarter on and UBM expects substantial effects on the 2021 result while arising opportunities are not to be materialized before 2022. The firm continues to expect an impact on hotel operations of Euro 10m on EBT level, a rental income impact of Euro 3m at EBT and an unclear picture regarding the valuation effects. Overall, however, we see the company as well positioned and the management has reacted fast to the outbreak of the pandemic with strategic adaptations. The equity ratio at 1Q is at 36%, the highest level of the company so far, but is expected to somewhat come back down following the dividend payment in June and the impact of the crisis on the earnings. The LTV at 34% and the cash position of Euro about 190m are at a very comfortable level and sufficient for the coming quarters, even if no further activity in terms of sales and project financing were to be the case. Regarding the pipeline, the company did some downsizing given different recovery scenarios, resulting in a worst case (L-shape recovery) project volume of Euro 1.25bn until FY 2021. Of that, about 50% are resi, 30% hotels and 20% are offices. Furthermore, a clearer shift away from hotels to resi or office assets is in the process.

Pleasing news came already earlier in May with the announcement of the strategic partnership with the government owned Austrian Real Estate GmbH (ARE), in which UBM is investing in "Eurogate", one of the largest urban development projects in Vienna, for 51% stake in 5 sub-projects, and ARE is acquiring 40% of the Baubergestraße project in Munich. The acquired share in Eurogate is planned to contribute about Euro 250m to the firm's P&L over the next four years and offers UBM regional diversification with an exposure to a large-scale project in Austria.

We are satisfied with the first quarter and the quickly taken measures of the company and confirm our target price of Euro 44.00. The share has already recovered a large portion of the losses following the outbreak of the pandemic, but still offers an upside of currently about 20%. Thus, we confirm our Buy rating for the share.

UBM Development AG

Industry: Real Estate Development
Sub-segment: Resi, Office, Hotels
Country: Austria
Headquarter: Vienna
Foundation: 1873
Employees: 389

Management Board of UBM
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Günter Schnötzinger

Founded in 1873 as "Union-Baumaterialien-Gesellschaft" the company has now an outstanding history of more than 145 years. Keep in mind, that since 1873, the firm is also listed on the Viennese stock market and thus is the oldest Austrian real estate company. After the initial focus was on the renting of construction equipment, the firm made a significant step ahead since the early Nineties where the firm started to initiate many new development projects after a 50% increase of share capital in 1991.

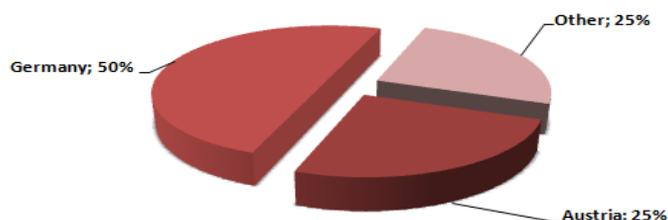
In 1992 the firm started to develop numerous lucrative projects in Eastern Europe, in particular in Poland and Czech Republic. Between 2001 and 2010 UBM entered some opportunistic markets like France and the Netherlands with hotels. In 2014 PORR, the Vienna-based construction and development conglomerate decided to separate its non-core real estate development activities from its construction activities with the destination to create two pure play entities and separately listed companies. In this spirit, PIAG was used as a spin-off vehicle which held PORR's non-core real estate development activities as well as PORR's share in UBM. In a second step UBM Realitäten AG was merged with PIAG and Strauss & Partner to the "new" UBM.

The UBM Development AG acts now since 2016 as a pure-play trade developer. The high-quality development pipeline in European top metropole regions has broken the Euro 2bn threshold in mid of 2019 and stood at a record high level of Euro 2.5bn at year-end 2019 for the next 4 years 2020 to 2023 (2018 pipeline: Euro 1.8bn). Due to the Corona pandemic, the company rightsized the pipeline. Depending on the recovery, the pipeline is now seen somewhere between euro 1.25bn and Euro 2.5bn. At the minimum level of Euro 1.25bn, the pipeline is split at about 50% residential units, about 20% office space and currently 30% hotels. From potentially 16 hotels, 7 hotels are in in current development, and from the 7 hotels 3 are already sold. The remaining 4 hotels are 1 in The Netherlands, 2 in Germany and 1 in Czech and it is quite likely that UBM will put them on its own balance for the next 1 or 2 years after completion as to sell them for an unsatisfying price.

In 2018, the numbers marked a new record year as UBM had a net profit of almost Euro 40m. 2019 was another record year with a net profit of Euro 53m. UBM confirmed the good Euro 2.20 dividend level per share given the strong own balance with a high equity ratio of 35% and a net LTV of only 34%. The confirmed dividend payment translates into a current dividend yield of about 6%.

Pipeline split as of 31 March 2020

(c. Euro 1.25bn pipeline taking a L-shaped recovery)



Source: Company data, SRC Research

P & L UBM Development AG

31/12 IFRS (Euro '000 except for per share-data)	2016	2017	2018	2019	2020e	2021e	2022e	CAGR '19 - '22e
Revenues	417.020	364.668	514.048	241.999	466.557	495.174	432.554	21,4%
Changes in the portfolio	-36.961	-24.051	-42.405	20.294	-26.445	-19.778	-28.774	
Share of profit/loss of companies accounted for under the equity method	25.124	16.469	35.921	59.980	8.618	14.554	12.447	
Income from fair-value adjustments to investment property	54.570	39.420	223	46.270	412	14.112	15.440	
Other operating income	7.450	30.576	10.652	10.488	21.445	13.544	15.120	
Cost of materials and other related production services	-300.372	-273.429	-352.422	-202.198	-321.995	-357.231	-350.687	
Staff expenses	-44.278	-41.389	-45.318	-36.644	-33.258	-35.741	36.789	
Expenses from fair-value adjustments to investment property	-20.514	-9.218	-7.340	-24.582	-4.511	-4.475	-5.441	
Other operating expenses	-52.427	-50.601	-54.471	-40.641	-48.774	-51.457	-44.575	
Operating profit (EBITDA)	49.612	52.445	58.888	74.966	62.049	68.702	82.873	3,4%
Depreciation, amortisation and impairment expenses	-3.406	-3.827	-2.946	-3.515	-4.554	-4.988	-5.020	
Operating profit (EBIT)	46.206	48.618	55.942	71.451	57.495	63.714	77.853	2,9%
Financial income	13.147	21.233	32.001	20.711	16.445	16.597	19.744	
Finance costs	-19.288	-19.387	-32.399	-21.650	-22.787	-26.301	-27.445	
Financial result	-6.141	1.846	-398	-939	-6.342	-9.704	-7.701	
Earnings before tax (EBT)	40.065	50.464	55.544	70.512	51.153	54.010	70.152	-0,2%
Income tax expense	-10.709	-13.498	-16.057	-20.450	-14.054	-15.021	-18.998	
Tax rate	26,7%	26,7%	28,9%	29,0%	27,5%	27,8%	27,1%	
Net profit before minorities	29.356	36.966	39.487	50.062	37.099	38.989	51.154	0,7%
Minorities	-247	-503	224	3.009	-320	-874	-1.025	
Net profit after minorities	29.109	36.463	39.711	53.071	36.779	38.115	50.129	-1,9%
Earnings per share (EPS)	3,90	4,88	5,31	7,10	4,92	5,10	6,71	
Dividends per share (DPS)	1,60	2,00	2,20	2,20	2,20	2,20	2,50	
Payout ratio	41,1%	41,0%	41,4%	31,0%	44,7%	43,1%	37,3%	
Number of shares ('000)	7.472	7.472	7.472	7.472	7.472	7.472	7.472	
Adjusted shareholders' equity without minorities	333.893	352.146	428.902	456.833	477.174	498.851	530.300	5,1%
Total assets	1.233.761	1.130.933	1.234.655	1.395.160	1.439.805	1.554.990	1.582.980	4,3%
Equity ratio	27,7%	31,4%	35,3%	33,3%	33,7%	32,7%	34,1%	
Book value per share (BVpS)	44,68	47,13	57,40	61,14	63,86	66,76	70,97	5,1%
RoE (after tax)	8,9%	10,6%	10,2%	12,0%	7,9%	7,8%	9,7%	
* Figures of UBM Realitäten AG (before merger)								
Key ratios & figures	2016	2017	2018	2019	2020e	2021e	2022e	
Growth rates in %								
Sales revenues	35,5%	-12,6%	41,0%	-52,9%	92,8%	6,1%	-12,6%	
EBIT	-37,3%	5,2%	15,1%	27,7%	-19,5%	10,8%	22,2%	
EBT	-20,3%	26,0%	10,1%	26,9%	-27,5%	5,6%	29,9%	
Net profit after minorities	-13,9%	25,3%	8,9%	33,6%	-30,7%	3,6%	31,5%	
Margins in %								
Operating profit (EBIT)	11,1%	13,3%	10,9%	29,5%	12,3%	12,9%	18,0%	
Pre-tax profit (EBT)	9,6%	13,8%	10,8%	29,1%	11,0%	10,9%	16,2%	
Net Profit (after minorities)	7,0%	10,0%	7,7%	21,9%	7,9%	7,7%	11,6%	
Expense ratios in %								
Personnel costs to sales	10,6%	11,3%	8,8%	15,1%	7,1%	7,2%	-8,5%	
Cost of material to sales	72,0%	75,0%	68,6%	83,6%	69,0%	72,1%	81,1%	
Depreciation to sales	0,8%	1,0%	0,6%	1,5%	1,0%	1,0%	1,2%	
Profitability in %								
Return on equity (RoE) after tax	8,9%	10,6%	10,2%	12,0%	7,9%	7,8%	9,7%	
Return on assets (RoA)	2,4%	3,2%	3,2%	3,8%	2,6%	2,5%	3,2%	
Valuation								
P/E-ratio	9,0	7,2	6,6	4,9	7,1	6,9	5,2	
Price/ BV per Share	0,78	0,74	0,61	0,57	0,55	0,52	0,49	
Dividend yield	4,6%	4,9%	6,3%	6,3%	6,3%	6,3%	7,1%	

SRC Research

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Rating Chronicle	Date	Rating	Former Price	Former Target
UBM Development AG	30 April 2020	Buy	35.00 €	44.00 €
UBM Development AG	25 March 2020	Buy	27.20 €	44.00 €
UBM Development AG	28 November 2019	Buy	46.00 €	54.00 €
UBM Development AG	28 August 2019	Buy	38.70 €	52.00 €
UBM Development AG	28 May 2019	Buy	40.40 €	50.00 €
UBM Development AG	07 March 2019	Buy	36.60 €	50.00 €
UBM Development AG	10 January 2019	Buy	36.00 €	50.00 €
UBM Development AG	29 November 2018	Buy	36.00 €	50.00 €
UBM Development AG	30 August 2018	Buy	41.40 €	50.00 €
UBM Development AG	04 July 2018	Buy	41.00 €	50.00 €
UBM Development AG	30 May 2018	Buy	42.90 €	50.00 €
UBM Development AG	10 April 2018	Buy	41.80 €	50.00 €
UBM Development AG	07 March 2018	Buy	40.00 €	50.00 €

Please note:

The UBM share price mentioned in this report is from 25 May 2020. UBM mandated SRC Research for covering the UBM share.

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