

ACCENTRO

Buy (unchanged) **Target: Euro 12.00** (old: Euro 13.00)



Der Spezialist für Finanzaktien

25 | March | 2019

Price (Euro) **8.50**
52 weeks range 11.50 / 7.72

Key Data

ISIN DE000A0KFKB3
Bloomberg E7S:GR
Reporting standard IFRS
Market Cap (Euro million) 276
Number of shares (million) 32.4
Free Float 12.1%
Free Float Market Cap (Euro million) 33
CAGR EBIT ('18 -'21e) 12.6%

Multiples	2018	2019e	2020e	2021e
Market Cap / Total revenues	8.3	8.2	7.4	6.7
PE-Ratio	15.1	13.9	12.0	10.2
Dividend Yield	1.9%	2.1%	2.4%	2.7%
Price-to-Book-Ratio	1.38	1.23	1.08	0.96

Key Data per share (Euro)	2018	2019e	2020e	2021e
Earnings per share (EPS)	0.56	0.61	0.71	0.84
Dividend per share (DPS)	0.16	0.18	0.20	0.23
Book Value per Share (BVPS)	6.14	6.94	7.84	8.86

Financial Data (Euro '000)	2018	2019e	2020e	2021e
Capital gains from property sales	33,085	33,626	37,325	41,431
Net rental income	6,130	7,183	8,349	9,700
Net service income	2,283	2,606	3,166	3,946
Operating profit (EBIT)	32,863	36,563	41,041	46,940
Net interest income	-8,925	-10,665	-11,551	-11,884
Pre-tax profit (EBT)	23,976	26,173	29,940	35,681
Income taxes	-5,675	-6,312	-7,045	-8,556
Net profit after Minorities	18,198	19,834	22,901	27,164
Shareholders' equity (Euro million)	348	474	538	597
Privatization Portfolio (Euro million)	344	389	418	447
RoE (after tax)	10.3%	9.4%	9.6%	10.0%
Equity ratio	42.0%	41.8%	42.6%	42.4%

Main Shareholders

Brookline Real Estate S.a.r.l. 83.1%
Adler Real Estate AG 4.8%

Financial calendar

1Q report 2019 3 May 2019
AGM 14 May 2019
1H report 2019 8 August 2019

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2018 revenues up significantly, EBIT and net profit below our estimates – portfolio lifted to Euro 344m – Target price down from Euro 13.00 to Euro 12.00, still Buy

Last week, on 20 March, Accentro published the 2018 annual report and confirmed the preliminary numbers from February. In terms of revenues the numbers were very pleasing, however, EBIT and net profit remained behind our estimate as well as below the firm's guidance. Total revenues hiked significantly from Euro 147m to almost Euro 206m, a plus of almost 40%. Revenues from sales of inventory properties hiked from Euro 138m to Euro 194m. Included in that number are the sold units from the Gehrensee joint venture with a revenue contribution of more than Euro 42m, which were more or less sold at book value and did not have any material impact on the firm's profits. Excluding that effect, total revenues were up by 11%. Letting revenues climbed from Euro 7.8m to Euro 8.8m while revenues from services increased from Euro 1.7m to Euro 2.8m. Total payroll and benefit costs increased significantly from Euro 3.3m to Euro 4.6m as the firm's workforce was expanded in 2018 and salaries were adjusted. Overall, the firm's EBIT was at almost Euro 33m, down from last year's more than Euro 36m, as projects in Berlin were delayed and moved into FY 2019. Hence, EBIT remained below our estimate of more than Euro 37m and below the company's guidance in a range between Euro 36m to Euro 40m. Net interest income remained stable at about Euro -9m, despite an increase in liabilities. EBT was therefore at Euro 24m, down about 13% from last year's number of almost Euro 28m. The firm's bottom line after minorities stood at Euro 18.2m compared to last year's Euro 20.1m, slightly below our estimate of Euro 19.5m. The management will propose a dividend of 16 cents per share at the AGM in May. This number remains below our estimate of 20 cents as well.

The privatization portfolio stands at Euro 344m at year-end 2018 (FY 2017: Euro 302m), generating an annual rental income of Euro 8.5m. The increase in the portfolio was achieved despite the sale of 1,615 units, which were sold at a gross sales margin of almost 28% excluding the Gehrensee transaction. With the portfolio we see Accentro well positioned for the coming years. We expect a further increase of the portfolio despite expecting a continuous high number of sales at the same time over the next years.

For FY 2019, the company only expects a modest increase in revenues (excluding Gehrensee sales) and a low double-digit percentage increase of the EBIT. Our estimates for 2019 and after were higher, which led us to adjust them accordingly. Together with the lower than expected 2018 results and the lower than anticipated dividend, these factors led us to reduce our target price from Euro 13.00 to Euro 12.00. Our overall view remains positive however. The good sales margins, the buildup of the portfolio and the expansion in further growth markets is proceeding well and the overall market conditions remain favourable for the privatization business. Thus, we stick to our Buy recommendation and currently see an upside of more than 40%.

SWOT Analysis

Strengths

- The CEO Jacopo Mingazzini is highly senior, experienced and well-known in the German real estate sector. He founded the ACCENTRO GmbH already in 1999.
- ACCENTRO has a leading position and a strong network in the market of residential privatization, on which they can built over the coming years
- Next to its core business of privatization, ACCENTRO offers services in the form of marketing- and sales-cooperation for other real estate companies and has entered into cooperations with renowned partners such as Vonovia and TAG. These partnerships are a good revenue addition to the revenues from the sale of inventory properties and should also further increase in the coming years
- The firm benefits from the rental income of the objects in the portfolio between the purchase and sale of these assets. With the intended buildup of the portfolio, the rental income will also climb.

Weaknesses

- ACCENTRO still lacks reputation in the market, which leads to a discount in their share price. As the firm gains more popularity and awareness with investors we see this current weakness turning into an opportunity for shareholders.
- The firm's free float is at only 12.1% still low. This clearly brings down the liquidity of the share and could lead to a higher volatility of the share. The recent capital hike was a first step to a more attractive capital markets profile, however.

Opportunities

- With the new major shareholder Brookline Real Estate, ACCENTRO will be able to push their strategic goals faster. We believe that Brookline will support ACCENTRO to realize their organic growth potential in the privatization business and also make use of the further potential in regards to marketing- and sales cooperation with large developers and investors.
- The continued supply shortage in the market offers an opportunity to ACCENTRO to leverage their position and increase their numbers over the coming years. The good network of the company should allow ACCENTRO to continue to find lucrative objects on the market and also off-market, which can then be privatized and sold at a good margin as the demand continues to be high.
- ACCENTRO's main focus is currently on the city of Berlin, where about 83% of the privatization portfolio is located. Recently the company has already expanded to other locations such as the currently strong growing region of Leipzig. We also see other locations in Germany that fit in the acquisition profile of the company and that offer further potential for expansion and diversification.

Threats

- As more than 80% of the privatization portfolio is currently located in the city of Berlin, a declining Berlin market either due to economic factors or due to political risks could have a significant impact on ACCENTRO's business. We currently don't see such a downturn in the next few years, however. Furthermore, the company has already expanded to other locations, such as Leipzig, and we believe the portfolio will further be diversified in the coming years.
- A general downturn of the Germany residential market conditions, the economy or a change in demographics could negatively impact ACCENTRO's sales of the privatization portfolio. We don't see a big threat in the foreseeable future however. Furthermore, worst case, the company can still keep the objects in the portfolio and create cash flow from renting the apartments in times of weaker market conditions.
- The company's business could be negatively affected if ACCENTRO fails to find new deals to add to their privatization portfolio.
- Brookline Real Estate holds about 83% of all shares, thereby holding the large majority and has enough voting rights at the firm's annual meeting to decide on almost all of the matters of the company.
- A change in European monetary policy by the ECB regarding the termination of the currently all-time low-interest period could result in a relatively high increase of interest expenses and might also lead to higher expenses for ACCENTRO. We currently do not see any drastic changes in the near future however and the company has also already locked in some long term financing at good rates.

ACCENTRO Real Estate AG

Industry:	Real Estate	Management Board of ACCENTRO:
Sub-segment:	Residential	Jacopo Mingazzini (CEO/CFO)
Region:	Germany	
Headquarter:	Berlin	
Foundation	2006	
Employees:	45	Supervisory Board of ACCENTRO:
		Axel Harloff
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ACCENTRO Real Estate AG is a leading company for privatization of residential properties in economically strong regions in Germany, as well as for the marketing and sales for property investors and project developers. The company's strongest focus is on the city of Berlin, where currently more than 75% of the firm's inventory portfolio is located or including the greater Berlin area even almost 85% respectively. Furthermore, ACCENTRO has recently expanded in growth markets such as the Leipzig area or Hamburg.

Accentro GmbH was founded in 1999 by Jacopo Mingazzini and in 2011 became a subsidiary of Estavis AG, which was formed in 2006 and was renamed to ACCENTRO Real Estate AG in 2015. The firm has a focus on the German residential market since 15 years. Over the recent years ACCENTRO managed to build up a strong track record. For example, a total of more than 4,000 apartments with a volume of almost Euro 520m have been sold since 2015 (1,615 Units in 2018) and the inventory portfolio has significantly been expanded from Euro 155m book value in 2015 to Euro 344m at FY 2018. Currently almost 2,200 units are on the firm's balance sheet. Furthermore, the strong sales cooperations with investors and developers offer the company further potential for a rise in revenues in the coming years.

The financial position of the company is solid. The firm has an LTV of about 51% and an equity ratio of 42% at FY 2018. The results of the recent 2018 FY showed a hike of almost 40% in the topline from Euro 147m in 2017 to Euro 206m in 2018, however a decline in the operating profit on EBIT basis and the bottom line. The firm delivered a lucrative gross margin from sales of 27.6% in 2018.

In terms of financing the company has strengthened its financing structure due to the early repurchase of a high-yield bond as of 30 June 2017. The company has further called its high-coupon convertible bond prior to maturity and has issued a Euro 100m 3 years corporate bond with a coupon of 3.75% in January 2018. An equity capital hike with a volume of Euro 20m was completed in October 2018.

Privatisation portfolio as of 31 December 2018				
City	Book value/purchase price (in mEUR)	Units	sqm ('000)	Selling prices (EUR/sqm)
Berlin	263.3	1,197	85,319	4,212
Greater Berlin	28.2	187	18,208	1,922
Leipzig and Greater Leipzig	14.9	309	18,024	1,086
Rostock	10.0	79	6,017	2,369
Cologne	6.5	43	2,851	3,169
Hamburg area	2.3	15	1,171	2,713
Others (Chemnitz, Bayreuth)	18.7	351	20,260	1,068
Total	343.9	2,181	151,850	3,043

Source: Company Data, SRC Research

ACCENTRO Real Estate AG 31/12 IFRS ('000)	2016	2017	2018	2019e	2020e	2021e	CAGR '18 - '21e
Revenues from sales of inventory properties	116,920	137,859	194,009	153,589	170,484	189,237	
Expenses from sales of inventory properties	-80,543	-103,167	-160,924	-119,963	-133,159	-147,806	
Capital gains from property sales	36,377	34,692	33,085	33,626	37,325	41,431	7.8%
Letting revenues	6,597	7,769	8,806	10,127	11,646	13,393	
Letting expenses	-2,032	-2,335	-2,676	-2,944	-3,297	-3,692	
Net rental income	4,565	5,434	6,130	7,183	8,349	9,700	16.5%
Revenues from services	1,588	1,714	2,794	3,353	4,191	5,029	
Expenses from services	-979	-766	-511	-747	-1,025	-1,083	
Net service income	609	948	2,283	2,606	3,166	3,946	20.0%
Other operating income	997	3,260	1,663	2,987	2,687	2,425	
Gross profit or loss	42,548	44,334	43,161	46,402	51,527	57,502	10.0%
Total payroll and benefit costs	-2,986	-3,339	-4,613	-4,458	-4,814	-5,036	
Depreciation and amortisation	-114	-114	-349	-359	-378	-386	
Impairments of inventories and accounts receivable	-951	0	-205	-269	-147	-153	
Other operating expenses	-4,561	-4,465	-5,131	-4,753	-5,147	-4,987	
Earnings before interest and taxes (EBIT)	33,936	36,416	32,863	36,563	41,041	46,940	12.6%
Net income from associates	514	-14	2	248	411	574	
Other income from investments	18	35	36	27	39	51	
Interest income	298	304	944	324	436	589	
Interest expenses	-6,695	-9,107	-9,869	-10,989	-11,987	-12,473	
Net interest income	-6,397	-8,803	-8,925	-10,665	-11,551	-11,884	
Profit/loss before taxes (EBT)	28,071	27,634	23,976	26,173	29,940	35,681	14.2%
Income taxes	-7,390	-7,316	-5,675	-6,312	-7,045	-8,556	
	26%	26%	24%	24%	24%	24%	
Consolidated income from Continuing Operation	20,681	20,318	18,301	19,861	22,895	27,125	14.0%
Earnings after taxes of Discontinued Operation	5,792	-197	0	0	0	0	
Consolidated income	26,473	20,121	18,301	19,861	22,895	27,125	14.0%
Minorities	-181	24	-103	-27	6	39	
Net profit/loss after minorities	26,292	20,145	18,198	19,834	22,901	27,164	14.3%
Number of shares ('000)	24,734	24,925	32,438	32,438	32,438	32,438	
Earnings per share (EPS)	1.07	0.81	0.56	0.61	0.71	0.84	
Dividend per share (DPS)	0.15	0.17	0.16	0.18	0.20	0.23	
Shareholders' Equity	136,836	153,697	199,104	224,988	254,236	287,287	13.0%
Balance Sheet sum	300,546	347,785	474,205	538,223	597,427	678,080	
Equity Ratio	45.5%	44.2%	42.0%	41.8%	42.6%	42.4%	
RoE (after tax)	21.4%	13.9%	10.3%	9.4%	9.6%	10.0%	-0.9%
Privatisation Portfolio (Euro million)	216	302	344	389	418	447	
Book Value per share (Euro)	5.53	6.17	6.14	6.94	7.84	8.86	13.0%

SRC Research
- Der Spezialist für Finanz- und Immobilienaktien -

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Rating chronicle:

Company	Date	Rating	former share price	former target
ACCENTRO	11 February 2019	Buy	8.90 €	13.00 €
ACCENTRO	6 November 2018	Buy	9.98 €	13.00 €
ACCENTRO	23 October 2018	Buy	9.56 €	13.00 €
ACCENTRO	9 August 2018	Buy	10.85 €	13.00 €
ACCENTRO	22 June 2018	Buy	11.15 €	13.00 €
ACCENTRO	22 May 2018	Buy	10.25 €	13.00 €

Please note:

The share price mentioned in this report is from 22 March 2019. ACCENTRO Real Estate AG mandated SRC Research for covering the share.

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