

Buy (unchanged) **Target: Euro 10.00** (old: Euro 13.00)

18 | December | 2019

■ **Price (Euro)** **8.40**
52 weeks range 8.88 / 5.44

■ **Key Data**

ISIN DE000A2DA414
Bloomberg CC1:GR
Reporting standard IFRS
Market Cap (Euro million) 1,130
Number of shares (million) 134.5
Free Float 18%
Free Float Market Cap (Euro million) 203
CAGR EBITDA ('18 -'21e) 38.6%
CAGR EBITDA pre PPA ('18 -'21e) 28.6%

■ Multiples	2018	2019e	2020e	2021e
Market Cap / Total revenues	38.1	58.8	44.9	48.2
PE-Ratio	-46.6	60.7	11.7	7.9
Dividend Yield	0.0%	0.0%	0.0%	2.4%

■ Key Data per share (Euro)	2018	2019e	2020e	2021e
Earnings per share (EPS)	-0.18	0.14	0.72	1.07
Dividend per share (DPS)	0.00	0.00	0.00	0.20

■ Financial Data (Euro '000)*	2018	2019e	2020e	2021e
Income from letting activities	29,659	19,214	25,143	23,445
Income from inventory disposed of	163,515	189,574	28,147	147,447
Total income	655,569	730,811	2,394,726	2,228,903
Change in project related inventory	-31,464	55,896	-362,789	-147,881
Overall performance	624,104	786,707	2,031,937	2,081,022
Cost of materials	-367,182	-412,578	-1,522,587	-1,499,117
Personnel expenses	-50,995	-70,596	-60,114	-61,449
Other operating expenses	-75,989	-57,863	-102,334	-101,442
EBITDA	155,470	265,477	337,574	413,864
EBITDA pre PPA	253,190	353,668	457,991	538,423
Net financial result	-198,316	-229,855	-160,921	-150,676
Pre-tax profit (EBT)	-45,872	28,597	172,061	258,066
Taxation	21,617	-6,479	-58,620	-86,447
Net profit	-24,255	18,606	96,884	143,730

* 2018 on a pro-forma basis, net profit in 2018 before minorities

■ **Main Shareholders**

Aggregate Group 51%
Ado Properties/Adler Real Estate 25%
Christoph Gröner 6%

■ **Financial calendar**

2019 annual report 23 April 2020
AGM 25 Juni 2020

■ **Analysts**

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9M numbers on track – Portfolio GDV at Euro 10.3bn - strategic cooperation agreement with ADO and possible takeover due to call option – Target down to 10 Euros, Buy rating affirmed

On Sunday evening, 15 December, the company reported that a strategic cooperation agreement was signed with ADO Properties S.A. Furthermore, a 22% strategic holding in Consus was acquired by ADO from selected minority shareholders at an average share price of Euro 9.72. ADO also announced that they intend to sign a contract for a call option to acquire the shares of Aggregate Group, the current majority shareholder with a holding of 51%, and if exercised, issue a voluntary takeover offer for the remainder of the outstanding shares of Consus. The exchange rate for the all share offer to both Aggregate and the other shareholders is set at 0.239 Ado shares per Consus share (subject to dividend payments and equity capital hikes). For the time being, the strategic cooperation dictates that both parties collaborate on existing and future projects, for which ADO Properties in turn is granted the right to match any purchase offer of a third party to acquire the project.

On last Thursday, 12 December, the company already released the 9M 2019 report and invited a conference call. The results were on track with our full-year estimates. The firm's overall performance was at Euro 609m. Revenues contributed Euro 525m, more than 3-fold the amount of 9M 2018. The change in project related inventory made up for the remaining Euro 84m. With a significant hike in personnel expenses and cost of materials, which comes along with the overall growth, the EBITDA was at Euro 220m compared to Euro 38m last year. The adjusted EBITDA result, meaning pre-PPA and pre one-offs, came in at Euro 285m, resulting in a high adjusted EBITDA margin of 54%. Looking at the pro forma adjusted LTM (last twelve months) EBITDA, which is at that time the best metric to represent the growth of the business given the acquisition of SSN at the end of last year, a hike of 470% from Euro 93m to Euro 438m, reflects the increased scale of the business. Financial expenses significantly increased from Euro 72m to almost Euro 195m. This is mainly the result of the placement of a senior unsecured bond in May and due to an increase in the volume of project loans. Net profit for the first nine months turns black at more than Euro 29m compared to almost Euro -18m in last year's period. The gross development value of the portfolio now stands even higher, at now Euro 10.3bn.

Even though we see the intrinsic Consus value higher, we believe the share will in the short term be more or less capped by the pending call option of ADO for another 51% of the shares with the current majority shareholder Aggregate and the possible resulting voluntary takeover offer for the remaining outstanding shares. The exchange ratio is already set and currently translates to an offer price of about Euro 7.70 per share, depending of the share price of ADO. The Euro 9.72 price paid for 22% showed that the former market value of Consus at only Euro 6.00 was much too low. For the moment, we reduce our target price from Euro 13.00 to Euro 10.00 but confirm our Buy rating.

SWOT Analysis

Strengths

- The company has a very experienced management team that has a broad network in the industry and a high level of combined knowledge in development, financing and acquisition. For instance, Andreas Steyer was the former DEMIRE CEO.
- The forward sales approach clearly reduces the firm's risk profile and allows for fast capital recycling. Thus the firm's equity is set free at an early stage in projects and can be reinvested.
- The firm's track record is long and shows many successful project completions. Thus the company has a good standing to land projects and also to sell these to potential investors.
- The firm covers the entire development value chain and is therefore not dependent to the same extent as other developers on factors such as rising building costs, which have increased almost 5% in 2018.
- The high pipeline of Euro 10.3bn, which is spread until 2026, puts the firm in a very good position. CONSUS therefore currently does not have the high pressure to compete for new competitive projects and expensive land reserves and can acquire these on a more cherry picking basis.

Weaknesses

- The group's financing costs are at 9M 2019 at a much too high level of about 8%, after the acquisition of SSN (11.3%). The management believes that it can reduce the interest rate by 2% points in the medium term, which is however not too ambitious in our view and would still show room for some more improvement. The first refinancing activities were already completed and show the first effects on the cost of debt.
- The firm's transparency level is lower compared to other developers, as only data of some of the projects are publicly available. We made a discount on that in our DCF.
- The CONSUS share is currently listed in the German low transparency level Scale segment, where liquidity and tradability are still quite limited. Given the size of the company, we expect an up-listing in 2020.

Opportunities

- The firm is a leader in terms of digitalization in the construction processes with the Building Information Modeling (BIM) 6D program. This could allow the company to significantly reduce prices and time and to gain an edge to the competitors.
- On top of the negotiated forward sales prices, CONSUS has the chance to benefit from a rent upside potential which would further drive the firm's profit given the company can successfully make use of these.
- The firm can further benefit from favorable market conditions in the German residential market.

Threats

- The integration of SSN into the group could lead to problems or could not set free the targeted scale effects.
- Changes in the market environment can have a significant impact on the firm's development business and lower the firm's chances of sales at good margins.
- The persisting global uncertainties (Brexit, trade wars) could dampen (and already did) the economic growth rates in Germany. That could start to hurt the prices for residential real estate in Germany. We would exclude such a scenario as there is a high under-supply at apartments in the German hubs and metropolitan regions and this will not remarkably change the next ten years, in our view.

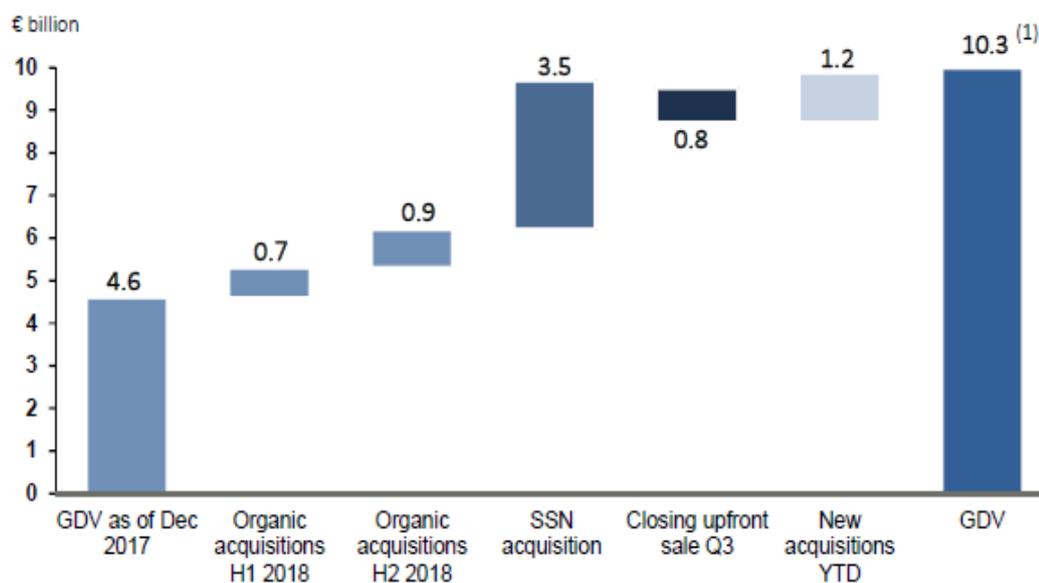
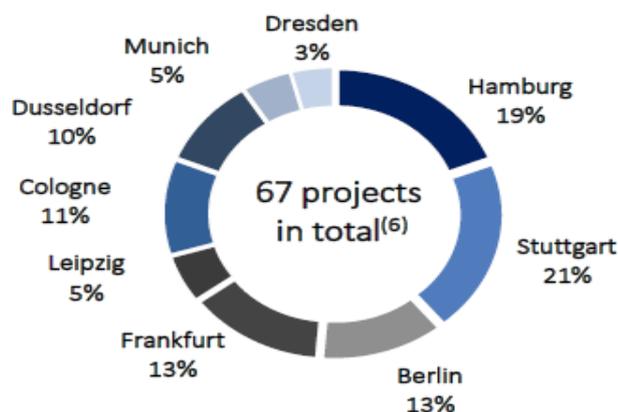
Consus Real Estate AG

Industry:	Real Estate	Management Board of CONSUS:
Sub-segment:	Residential developer	Prof. Andreas Steyer (CEO)
Region:	Germany	Benjamin Lee (CFO)
Headquarter:	Berlin	Theo Gorens (CRO and deputy CFO)
Foundation	2017	
Employees:	>760	Supervisory Board of CONSUS:
		Axel Harloff
IR Contact:		Prof. Dr. Hermann Wagner
Robert Stierwald		Dr. Friedrich Oelrich
r.stierwald@consus.ag		

Consus Real Estate AG is a leading German residential developer with a focus on the top 9 German cities, which is listed in the German stock market at Scale segment.

Consus was founded in 2017, however, the combined group has already more than 20 years of experience in the development business and dates back to 1995 where CG Group, of which Consus holds a 75% stake, was founded. Following the acquisition of SSN in November 2018, the company now has a development portfolio with a gross development value of Euro 10bn. The portfolio is focused on the top 9 cities, with the largest share currently located in Stuttgart (21%), closely followed by Hamburg (19%). Consus follows a forward sale-oriented business model, thereby minimizing the risk. Of the Euro 10.3bn portfolio, currently 27% is forward sold, 9% are sold upfront and for another 42% forward sales are targeted. The remaining 22% consists of condominiums.

Breakdown of the development portfolio by city ⁽³⁾



Source: Company Data, SRC Research

CONSUS Real Estate AG 31/12 IFRS ('000)	2017 (pro-forma)	2018 (reported)	2018 (pro-forma)	2019e	2020e	2021e	CAGR '18 - '21e
Income from letting activities	25,426	32,796	29,659	19,214	25,143	23,445	-7.5%
Income from real estate inventory disposed of	205,558	163,515	163,515	189,574	28,147	147,447	
Income from property development	15,717	408,461	443,830	501,879	2,318,987	2,033,455	66.1%
Income from service, maintenance and management activities	3,893	10,199	18,565	20,144	22,449	24,556	
Total income	250,594	614,971	655,569	730,811	2,394,726	2,228,903	50.4%
Change in project related inventory	302,183	-147,352	-31,464	55,896	-362,789	-147,881	
Overall performance	552,777	467,619	624,104	786,707	2,031,937	2,081,022	49.4%
Expenses from letting activities	-2,723	-16,083	-14,741	-9,142	-12,558	-11,447	
Cost of materials	-300,601	-285,600	-367,182	-412,578	-1,522,587	-1,499,117	59.8%
Valuation result	4,844	25,631	25,631	12,365	2,103	3,544	
Other operating income	14,708	13,241	14,642	16,584	1,127	2,753	
Personnel expenses	-34,865	-36,911	-50,995	-70,596	-60,114	-61,449	
Other operating expenses	-55,511	-59,997	-75,989	-57,863	-102,334	-101,442	
EBITDA	178,629	107,901	155,470	265,477	337,574	413,864	38.6%
Depreciation and amortization	-2,204	-2,175	-3,026	-7,025	-4,592	-5,122	
EBIT	176,425	105,726	152,444	258,452	332,982	408,742	38.9%
Financial income	14,202	4,620	11,467	28,476	8,557	8,770	
Financial expenses	-205,289	-121,834	-209,783	-258,331	-169,478	-159,446	
Pre-tax profit (EBT)	-14,662	-11,488	-45,872	28,597	172,061	258,066	
Income tax	-1,209	11,192	21,617	-6,479	-58,620	-86,447	
Tax rate				22.7%	34.1%	33.5%	
Net profit before minorities	-15,871	-296	-24,255	22,118	113,441	171,619	
thereof minorities	n/a	13,230	n/a	3,512	16,557	27,889	
Net profit after minorities	n/a	-13,526	n/a	18,606	96,884	143,730	
Number of shares ('000)	79,850	134,526	134,526	134,526	134,526	134,526	
Earnings per share (incl. minorities)	-0.20	0.00	-0.18	0.16	0.84	1.28	
Earnings per share (after minorities)	n/a	-0.10	n/a	0.14	0.72	1.07	
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.20	
Purchase price allocation (PPA)		82,262	82,262	85,687	120,417	124,559	
One-off expenses		13,493	15,458	2,504	0	0	
EBITDA before PPA		203,656	253,190	353,668	457,991	538,423	28.6%
Shareholders' Equity (incl. minorities)	816,009	1,162,539	1,162,539	1,257,413	1,370,854	1,515,568	9.2%
thereof minorities	169,901	151,629	151,629	156,936	160,859	164,077	
Balance Sheet sum	2,626,042	3,745,050	3,745,050	4,587,631	4,670,208	4,950,421	
Equity Ratio	31.1%	31.0%	31.0%	27.4%	29.4%	30.6%	
RoE (after tax)	-1.9%	0.0%	-2.5%	1.8%	8.6%	11.9%	
Book Value per share (Euro)	8.09	7.51	7.51	8.18	8.99	10.05	10.2%

SRC Research **- Der Spezialist für Finanz- und Immobilienaktien -**

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Rating Chronicle

Company	Date	Rating	former share price	former target
CONSUS	13/09/2019	Buy	6.75 €	13.00 €
CONSUS	20/06/2019	Buy	7.34 €	13.00 €
CONSUS	21/05/2019	Buy	8.55 €	13.00 €
CONSUS	25/04/2019	Buy	7.25 €	13.00 €

Please note:

The share price mentioned in this report is from 17 December 2019. CONSUS Real Estate AG mandated SRC Research for covering the share.

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