CONSUS Real Estate

Buy (opening coverage) **Target: Euro 13.00**

25 | April | 2019

THOMSON REUTERS ANALYST AWARDS 2018 WINNER

SRC Der Spezialist für Finanzaktien

Price (Euro)	**7.25**
52 weeks range	8.98 / 6.06

Key Data

ISIN	DE000A2DA414
Bloomberg	CC1:GR
Reporting standard	IFRS
Market Cap (Euro million)	975
Number of shares (million)	134.5
Free Float	37%
Free Float Market Cap (Euro million)	361
CAGR EBITDA ('18 -'21e)	38.6%
CAGR EBITDA pre PPA ('18 -'21e)	28.6%

Multiples	**2018**	**2019e**	**2020e**	**2021e**
Market Cap / Total revenues	32.9	48.5	38.8	41.6
PE-Ratio	**-40.2**	**50.5**	**10.1**	**6.8**
Dividend Yield	0.0%	0.0%	0.0%	2.8%

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**
Invome from letting activities	29,659	20,124	25,143	23,445
Income from inventory disposed of	163,515	27,898	28,147	147,447
Total income	**655,569**	**1,831,380**	**2,394,726**	**2,228,903**
Change in project related inventory	-31,464	-251,369	-362,789	-147,881
Overall performance	**624,104**	**1,580,011**	**2,031,937**	**2,081,022**
Cost of materials	-367,182	-1,202,230	-1,522,587	-1,499,117
Personnel expenses	-50,995	-57,441	-60,114	-61,449
Other operating expenses	-75,989	-101,478	-102,334	-101,442
EBITDA	**155,470**	**209,821**	**337,574**	**413,864**
EBITDA pre PPA	**253,190**	**351,700**	**457,991**	**538,423**
Net financial result	-198,316	-179,734	-160,921	-150,676
Pre-tax profit (EBT)	**-45,872**	**26,531**	**172,061**	**258,066**
Taxation	21,617	-3,701	-58,620	-86,447
Net profit	**-24,255**	**19,318**	**96,884**	**143,730**

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

Main Shareholders

Aggregate Group	57%
Christoph Gröner	6%

Financial calendar

1Q 2019 key data	19/06/2019
AGM	26/06/2019
SRC Forum Financials & Real Estate	**03/09/2019**
1H 2019 report	19/09/2019

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CONSUS is the leading German residential developer and an excellent investment opportunity at the current low share price – we start Coverage with Buy and Euro 13.00

CONSUS Real Estate is the leading German residential developer with an outstanding market position as the Number One address for city quarter developments and large scale residential plots (> 100 flats) in the 9 Big cities and the surrounding metropolitan regions like Berlin, Munich, Hamburg, Dusseldorf and Stuttgart.

Germany is a strongly undersupplied market with a huge and even in almost all hubs steeply rising demand for flats and condominiums, in particular in the midmarket segment for 1-2 persons per flat (50 – 70 sqm). **CONSUS offers the full value chain as a fully integrated platform, from buying the right plots and in-house planning, then forward sales, in almost all cases prior to the construction, and the final phase of Build and Deliver.** The projects are pre-sold to institutional buyers like funds and insurers, bringing down execution risks. The risk of higher construction costs is also limited in a favorable way, as CONSUS works on the construction sites with own teams, which is only possible if you have a large-scale pipeline to be done for the next 5 to 10 years, as this is the case with CONSUS. Even more, after acquiring the renown Swiss developer SSN with a 3.5bn pipeline in 4Q 2018, bringing up the total pipeline to a Euro 9.6bn level. Despite the huge pipeline the equity requirement is quite low due to an early stage of capital recycling and early sales as the firm is about 5% in Plus, already after the building permit is received and the forward sale is done as CONSUS receives 30% of the total cash inflow but faces only 25% of the costs (20% buying the land and 5% initial costs until building permit). The remaining cash flow is very much oriented on the progress of the construction site and at the end the company gets the remaining part of the developer profit and aims for a full 20% adjusted EBITDA margin. In the forward sales contracts CONSUS even builds in step ups for higher rents as initially planned or higher occupancy levels. Based on the forward sales in a very favorable and persisting market and own teams which reduce the risks of strongly rising construction costs in mid-term, the business model is very lucrative and quite stable with a quite low risk level for a developer. The very huge size of development portfolio also brings down the risk profile by a broad diversification. CONSUS' pipeline until 2023 is about 20% to 25% bigger than from the next competitors Zech and Instone.

With this outstanding size and superior project and management quality we have no doubt to see much higher future share prices for CONSUS than in the past. The 2018 result with a pro-forma EBITDA of > Euro 250m is a good start to steeply come up with Euro 450m in only 2 years. The planned up-listing from Scale to the higher Prime Standard is another step. We assessed CONSUS with a very conservative DCF and still made some discounts for visibility and current high Cost of Debt. We start our coverage with Buy and Euro 13.00.

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 extend as other developers on factors such as rising building costs, which have increased almost 5% in 2018.
- The high pipeline of almost Euro 10bn, 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 groups financing costs are at present at a much too high level of more than 8%, after the acquisition of SSN (11.3%). The managements 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 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 the current fiscal year 2019.

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.

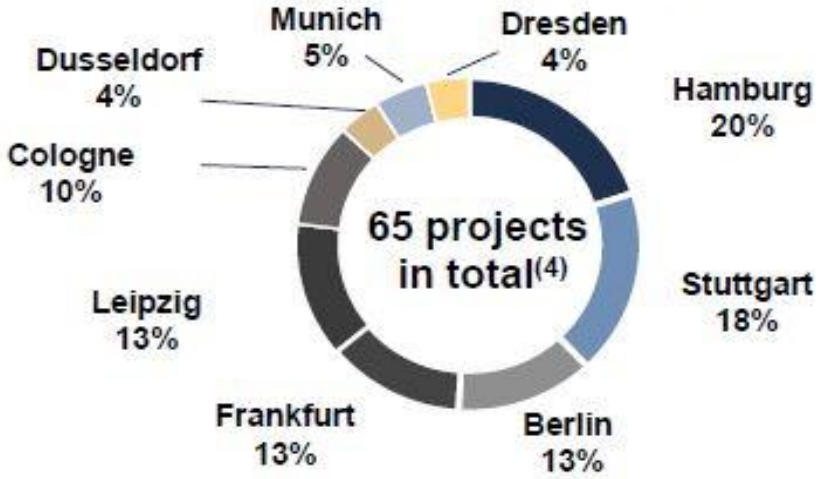
Consus Real Estate AG

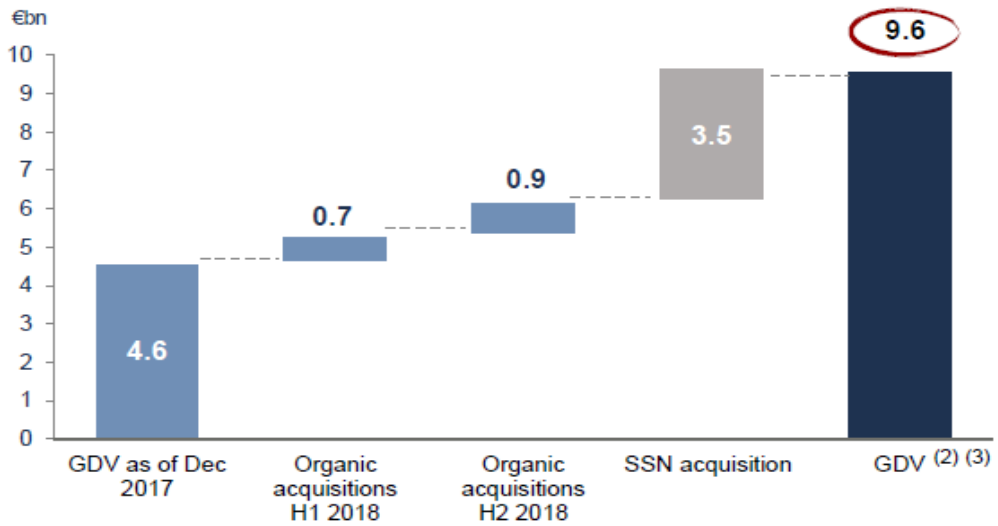
Industry:	Real Estate	**Management Board of CONSUS:**
Sub-segment:	Residential developer	Prof. Andreas Steyer (CEO)
Region:	Germany	Benjamin Lee (CFO)
Headquarter:	Berlin	Theo Gorens (CRO and deputy CFO, from 1 May)
Foundation	2017	
Employees:	>760	**Supervisory Board of CONSUS:**
		Axel Harloff
IR Contact:		Prof. Dr. Hermann Wagner
investors@consus.ag		Dr. Friedrich Oelrich
p.schlinkmann@consus.ag (from 2 May)		

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 segement.

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 acquistion of SSN in November 2018, the company now has a development portfolio with a gross development value of almost Euro 10bn. The portfolio is focused on the top 9 cities, with the largest share currently located in Hamburg (20%), closely followed by Stuttgart (18%). Consus follows a forward sale-oriented business model, thereby minimzing the risk. Of the almost Euro 10bn portfolio, currently 26% is forward sold and for another 53% forward sales are targeted. The remaining 20% consists of condominiums.

Development portfolio across top 9 cities





Source: Company Data, SRC Research

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Some remarkable milestones set in 2018 – More milestones will follow in the coming years

The company released the 2018 annual report in the last week, on 17 April, and invited for an analysts' conference call. CONSUS managed some important milestones in the last year and is prepared to bring the power of the common group including CG and SSN on the road.

Last year was used to develop a pure play and leading residential developer

1) By buying Swiss SSN Group with a Euro 3.5bn GDV (development pipeline)
2) By buying another GDV Euro 1.6bn development projects
3) By increasing the stake in CG Group from 59% to 75%
4) By selling several commercial assets
5) By selling the 58% stake in listed commercial player GxP German properties

From a financial perspective the year 2018 was also impressive

1) By more than doubling total income from Euro 251m to Euro 656m on a pro-forma basis
2) 2018 adjusted EBITDA pre PPA was already at high Euro 253m, on a good level to reach the targeted Euro 450m in 2020
3) from the Euro 9.6bn GDV a high Euro 2.5bn is already contracted in a quite early stage or has at least an LoI (26%)
4) the initial 1Q 2019 was a successful start with already Euro 170m GDV contracted and two further projects with LoI under negotiation.

CONSUS maintained its 2020 financial performance targets which seem realistic to us. The reduction of financing costs is the most important in our view.

1) Reducing cost of debt from 8.1% (2018) to 6.0% in mid-term (probably until 2021)
2) After a successful year 2018 the firm still targets to bring up adjusted EBITDA pre PPA (purchase price acquisition) from Euro 253m in 2018 to Euro 450m in 2020 (a significant hike should be seen already in 2019, according to management)
3) Target of net debt / adjusted EBITDA of about 3x in mid-term
4) Target of maintaining a 20% adjusted EBITDA developer margin

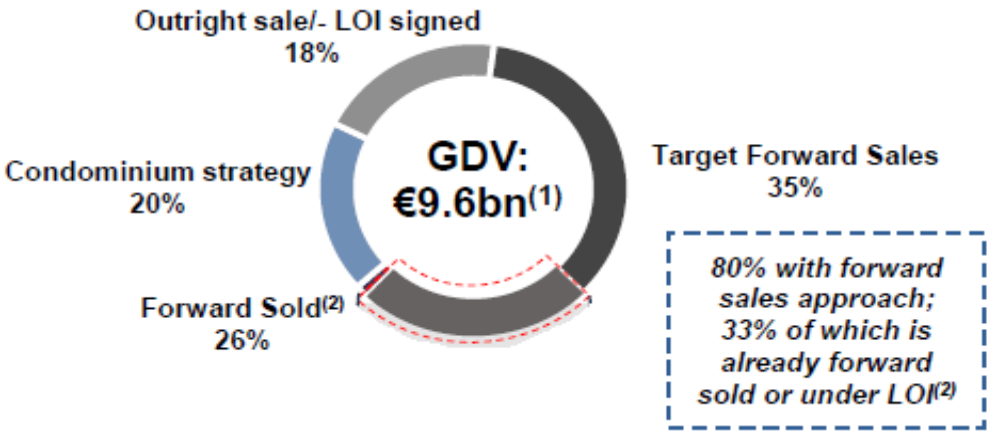
All these targets are pretty realistic to us. For the cash flow generation the most important points are the reduction of financing costs and keeping a stable margin on the projects despite a trend for increasing construction costs. At the moment, the demand is still so very high for stable and promising yielding assets – as CONSUS has to offer – that we see no big challenge to shift rising construction costs to the buyers. And the broad diversification of the "new big" CONSUS group should allow to receive much better financing conditions for new loans.

Strategic realignment opens the way to a strong and lucrative future

Since the implementation of some key strategic steps in early 2018 to focus exclusively on real estate development, CONSUS has become a leading property developer with the focus on affordable residential properties in Germany's top nine economic cities. The transition included the sale of the buy-to-hold commercial portfolio and the sale of the firm's stake in GxP German Properties. In the development sector, the company now covers the entire development value chain. The execution of the projects from the planning to the handover is provided by the company through its subsidiaries CG and SSN.

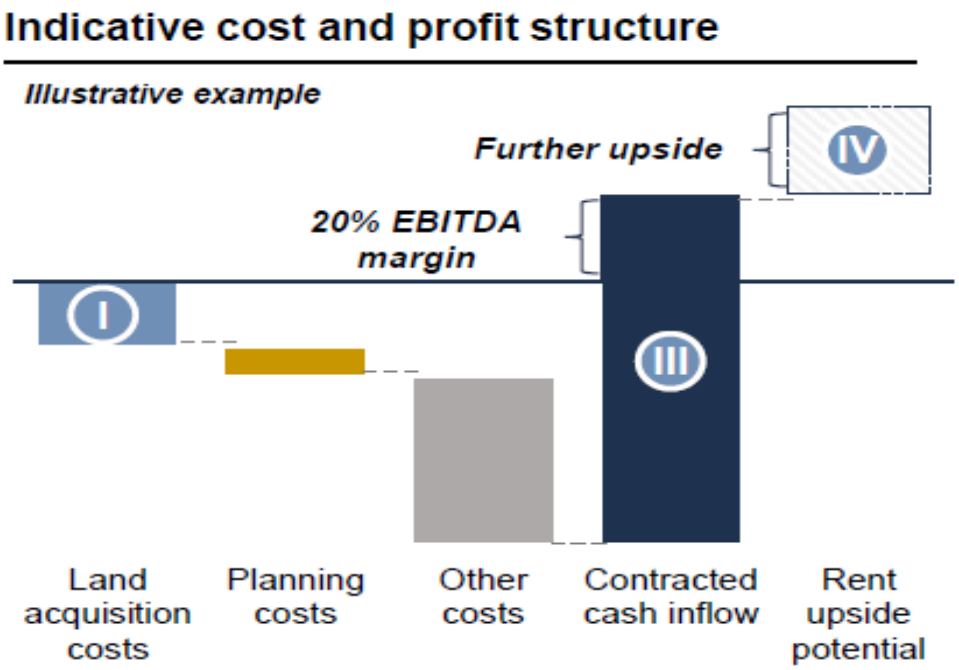
For most of the developments, the company follows a forward sale-oriented business model, thereby reducing development, financing and exit risks. For the remainder CONSUS targets a condominium sale, meaning selling the units of a project individually to retail purchasers. The current balance is at about 80% forward sales and 20% condominiums.

For most of the developments CONSUS follows a forward sale approach to a long list of institutional investors, minimizing financing and exit risks to a very low level. About 80% are forward sales.



Source: Company data

In the first step of the development cycle, CONSUS acquires development opportunities and lays out the overall project structure. The company can benefit from a broad network here, including municipalities and key decision makers as well as from its reputation. After that, in the planning stage, the project is being optimized and building permits are obtained. Now, depending on the project, the company targets the retail sale or forward sale. In the case of a forward sale, these sale arrangements are made before any construction starts. After a forward sale was arranged the company starts the construction phase, where payments are made at pre-agreed milestones during the construction period. This allows the company to recycle the capital already early and hence reduces the requirement for capital. It furthermore minimizes the lock-in period of the firm's equity. The firm targets to already be cash flow positive after the building permits were received and to realize a strong positive cash flow in year 2 to 3 and strives for an adjusted EBITDA margin of 20%.



Source: Company data

Even in a forward sale construction CONSUS has the chance to (at least partly) profit from rent increases upon completion.

Other than with a classic forward sale, however, CONSUS also has significant rent upside potential on top of the agreed upon sales price. Here, the firm can benefit from rent increases upon the completion of construction and can capitalize on potential operational synergies through accretive acquisitions. CONSUS delivers to its forward sale institutions a fully yielding asset. It is CONSUS' responsibility to rent the apartments prior to handing over the building to the institution to manage going forwards. Typically CONSUS has 12-18 months to rent out the apartments. At the end of that period, the rental income is tested versus the target in the contract. If it is higher than the contract, then CONSUS achieves a higher sale price up until a maximum price.

In the case of a retail sale, which is the case e.g. for higher value properties and higher margins, the construction is not dependent on the sales status as it goes hand in hand with the sales process. The company also operates in a favorable legal framework with a pre-defined payment schedule depending on construction milestones. This means, that a significant amount of construction costs are also already covered by the regular payments and the final instalment is due after completion.

The condominiums are often part of a larger quartier development. This ability to develop sustainable vertical villages and quarters as well as large-scale residential developments with commercial apportionment, differentiates CONSUS from many other developers. The company has a good reputation of completing these kinds of projects within budget and on schedule. Furthermore, the company has the expertise to convert listed commercial buildings to residential space. One of these examples are the VauVau projects, where unused high-rise buildings and office buildings in cities are transformed into modern residential and commercial complexes in order to cover the supply shortage.

There is a minimum size of 100 apartments per plot for efficiency reasons. The sweet spot is a size of 50 – 70 sqm which meets best the current demand. Before starting the project CONSUS runs a detailed risk analysis.

Regarding the addition of new projects to the pipeline, CONSUS has some clear investment criteria. The idea is to invest in standardized rental apartment blocks and integrated residential and commercial developments with a focus on the top 9 German cities. In terms of size the company is looking for a minimum of 100 apartments with a lot size of a 1 - 2 bedroom apartment with 50 sqm to 70 sqm as well as their VauVau concept at around 50 sqm. The projects are to be attractive to institutional investors under the firm's forward sale model and are required to achieve an EBITDA margin of 20%. Prior to investment, the company runs a risk analysis, considering e.g. building permit risks, risk of successful forward sale, construction cost risk, as well as rental price and volume risk.

At the moment, the pipeline consists of 64 projects with a total gross development value (GDV) of Euro 9.6bn. Thereof, 26% have already been sold forward, for 53% the firm targets a forward sale and for the remaining 20% are condominiums. Over the next years, we expect that the company will keep the pipeline at a level of around Euro 10bn and add to it as other projects are being finished. However, in our opinion, an opportunistic extension is also possible, if the firm finds a lucrative and interesting project.

Hamburg	
GDV in €m:	1,928
Area in k m²:	369
Avg. Sales Price:	5.231
% of total GDV:	20%
Projects:	6

Dusseldorf/Dortmund	
GDV in €m:	369
Area in k m²:	65
Avg. Sales Price:	5.685
% of total GDV:	4%
Projects:	4

Cologne/Aachen	
GDV in €m:	999
Area in k m²:	209
Avg. Sales Price:	4.772
% of total GDV:	10%
Projects:	5

Frankfurt/Offenbach	
GDV in €m:	1,238
Area in k m²:	173
Avg. Sales Price:	7.154
% of total GDV:	13%
Projects:	7

Munich	
GDV in €m:	476
Area in k m²:	67
Avg. Sales Price:	7.078
% of total GDV:	5%
Projects:	3

Berlin	
GDV in €m:	1,177
Area in k m²:	227
Avg. Sales Price:	5.183
% of total GDV:	13%
Projects:	9

Leipzig/Erfurt	
GDV in €m:	1,277
Area in k m²:	534
Avg. Sales Price:	2.390
% of total GDV:	12%
Projects:	17

Dresden	
GDV in €m:	416
Area in k m²:	93
Avg. Sales Price:	4.496
% of total GDV:	4%
Projects:	6

Stuttgart/Karlsruhe	
GDV in €m:	1,716
Area in k m²:	364
Avg. Sales Price:	4.718
% of total GDV:	18%
Projects:	7

Source: Company data

In 2018, the project portfolio grew from Euro 4.6bn at year-end 2017 to Euro 6.2bn at 9M 2018. The largest part of the recent extension of the pipeline, however, came from the acquisition of SSN in 4Q 2018, which added Euro 3.5bn of new projects. This acquisition significantly increased the exposure of CONSUS to the city of Hamburg, Stuttgart and Munich. Now, the largest share of the development pipeline is located in Hamburg, where almost Euro 2bn of GDV or respectively 20% of the projects are located. Hamburg is followed by Stuttgart (18%), Berlin and Frankfurt (each at 13%) as well as Leipzig at 12%. The other locations are Cologne, Dusseldorf, Munich and Dresden. As of FY 2018, about 30% of the almost Euro 10bn pipeline were under construction, leaving a very large part still in the ramp-up phase.

#	Entity	Project Name	City	GDV in €m	% of Total GDV	% Residential	Net floor area in m²	Status	Primary Exit Strategy	Development Time-frame
1	SSN	Garden Campus	Stuttgart	979	10%	79%	186,581	Planning	FW	2020 – 2025
2		416 (Freiladebahnhof)*	Leipzig	884	9%	53%	267,941	Planning	FW	2020 – 2025
3	SSN	Holsten Quartiere	Hamburg	878	9%	71%	145,749	Planning	FW	2021 – 2026
4		Cologneo I	Cologne	389	4%	37%	90,607	Construction	Partly FW Sold	2018 – 2021
5		Quartier C	Karlsruhe	371	4%	64%	111,249	Planning	FW	2021 – 2025
6	SSN	The Wilhelm	Berlin	366	4%	85%	17,720	Construction	Condo	2018 – 2021
7		Neuländer Quarree	Hamburg	357	4%	37%	81,315	Planning	FW	2020 – 2023
8		Cologneo II	Cologne	351	4%	64%	71,583	Planning	FW	2022 – 2025
9	SSN	Covent Garden	Munich	297	3%	93%	26,952	Planning	FW	2020 – 2022
10		Frankfurt Ostend	Frankfurt	283	3%	54%	39,000	Planning	FW	2021 – 2023
	Top 10			5,154	53%	61%	1,038,967			

Source: Company data

The top 10 projects make up for more than 50% of the pipeline and for a total of more than 1m sqm of net floor area. Two of the projects, namely “Cologneo I” in Cologne and “The Wilhelm” in Berlin are in the construction phase, while the remaining eight projects are in the planning stage. One project is planned for a retail sale, while one project is already partially forward sold and the other eight projects are to be forward sold. The development time-frame spans from 2018 to 2026, securing cash flows for a long term.

We go more into detail about the well-known Hamburg-based Holsten city quarter development on the next page.

The Hamburg Holsten Quarter is an excellent example for a full city quarter development to really change and improve the face of a modern urban city quarter

The famous Holsten brewery will soon move in the south of Hamburg and gives room for a modern urban city quarter development including a careful handling of the brewery heritage

Hamburg is the second largest city of Germany with 1.8 million inhabitants and a very sought-after market for apartments. CONSUS is here with several projects coming from both the CG and the SSN side, in particular to mention the renowned Holsten quarter project in the promising Altona district. The Holsten brewery was founded in 1879 in Hamburg and is headquartered in the Hamburg Altona city quarter at the Holstenstrasse. Since 2004 the Holsten Brewery is part of the Danish Carlsberg A/S brewery group with many well-known beer brands – as for instance Carlsberg and Tuborg in the international markets as well as Holsten and Astra for the domestic German beer market.

The brewery will soon move just 16 kilometers south in 4Q 2019, from the much more central and expensive Altona district to the Heykenaukamp commercial and industrial district in the very south of Hamburg in Hamburg-Hausbruch, near to the important A 7 highway. After the Carlsberg A/S mother secured this land plot, the Holsten brewery sold their very lucrative land plot in Altona, very close to the public transport stations, with about 202k sqm gross floor area in June 2016 to GERCHGROUP, which brought this into a JV with SSN in April 2017 and withdrew from this JV in June 2018. From this point it was an exclusive SSN project.

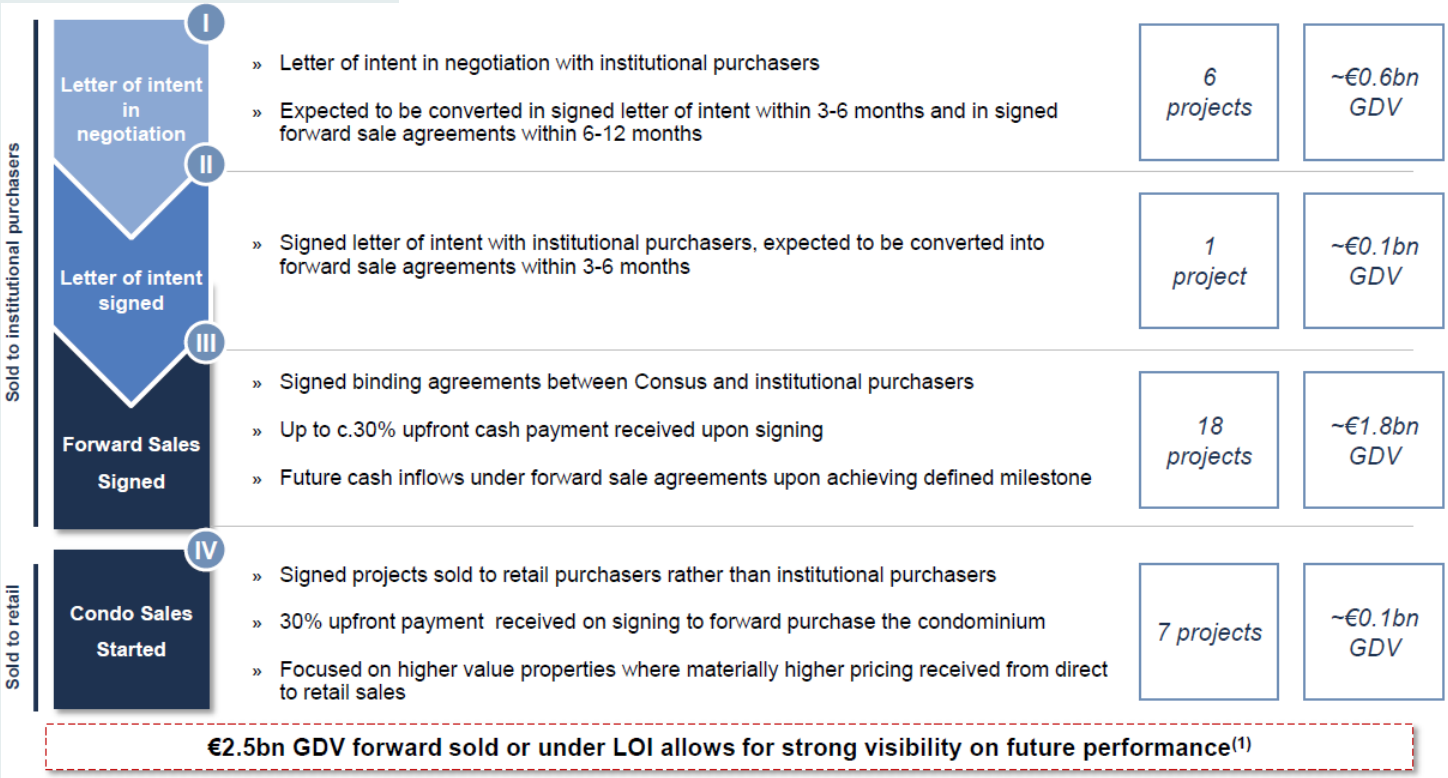
The area offers space for about 1,200 apartments (one third condominiums, one third freely financed, one third with public subsidy) and for some office and retail and gastronomy space (c. 50k sqm) which will also underline the brewery heritage by saving the old Juliusturm and the old Sudhaus. But CONSUS will not only care for modern apartments in a good Hamburg location and for extra office and gastronomy space as well as probably a hotel but also for a school and a community center to make the entire area worth for living, in particular for young families. The detailed planning goes hand in hand with the Hamburg building authorities and planning commissions where CONSUS established good and trustful relationships. The construction of the Holsten quarter will start in early 2021 and will be finished until 2026.

Source: Company data

CONSUS profits from predictable cash flows

With the forward sale approach the cash inflow comes fast and is predictable and visible.

As the firm follows a forward sales approach, the cash flows become relatively predictable and visible. Currently Euro 2.5bn of the firm's almost Euro 10bn development pipeline have already been forward sold or under a Letter of Intent. For Euro 1.8bn, forward sales have been signed with institutional investors and up to 30% of the purchase price was already received. The same applies to Euro 0.1bn of condo sales. The remaining Euro 0.7bn are to be forward sold within the next 3 to 12 months.

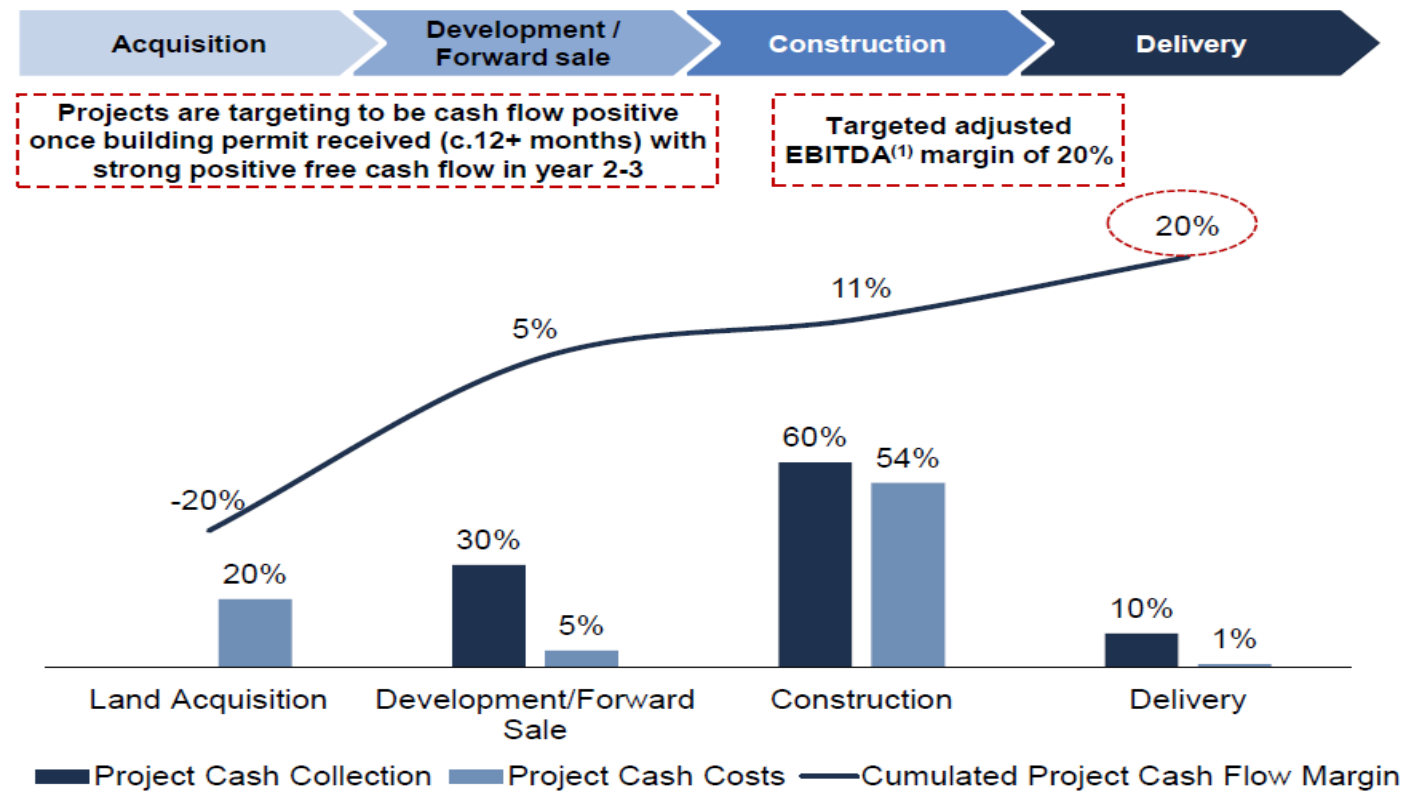


Source: company data

In a normal scenario CONSUS is cash flow positive with each project after 12 months.

Additional income is possible if CONSUS over delivers on occupancy levels or sqm rents after the completion.

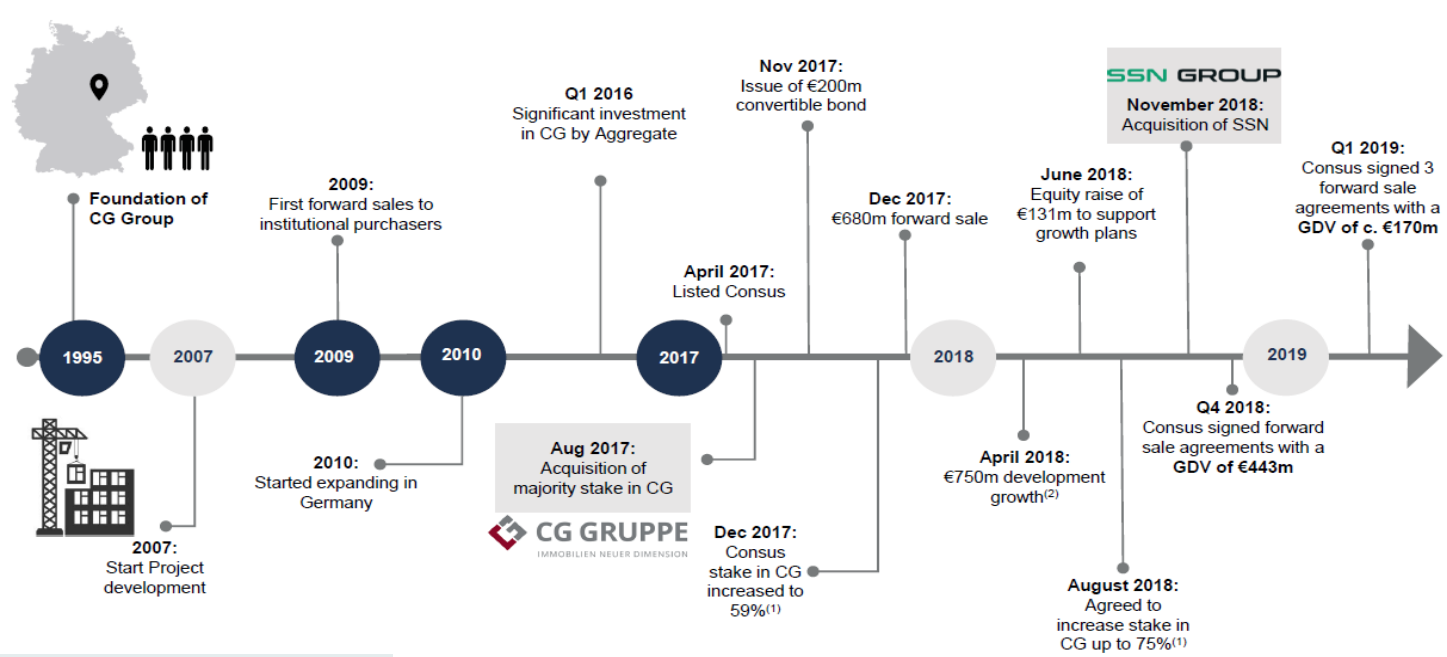
At the same time, this means that for the Euro 2.5bn of projects, the company is or will be cash flow positive soon. In terms of cash flow CONSUS aims to be cash flow positive after 12 months, once the building permit is received, thereby covering the costs for the land acquisition and the project costs in the development stage. This allows for an early capital recycling and reduces the lock-in period of the equity. A strong positive free cash flow is targeted to be reached within 2 to 3 years of project life time, increasing to a targeted adjusted EBITDA margin of 20% at completion and delivery. Some extra income might occur, if CONSUS over delivers on occupancy levels or on sqm rents after the completion which would bring up the margins to even higher levels.



Source: Company data

A long successful track record, in particular CG Group

The combined group has a long track record with the foundation of CG Group dating back to 1995 and the first project development in 2007. The first forward sales to institutional purchasers, like in the business model the company follows today, was in 2009. In April 2017, CONSUS was listed and 4 months later acquired a majority stake in CG, which was increased to 75% a year later in August 2018. At the end of 2018, in November, CONSUS acquired SSN, a company that also has a long track record and a high expertise in development dating back to 2004.



Source: company data

The long track record becomes even more apparent by looking at the sales volumes in execution and completion. Over the recent almost 20 years, CG Gruppe has steadily expanded its market position and completed numerous high-volume development projects. Between 2000 and 2017, CG has developed a total of Euro 1.1bn worth of real estate projects. First the focus was on the cities of Leipzig and Berlin. From 2013 on, Cologne, Frankfurt and Dresden was added to the firm's locations. As of 2017, the focus is on the top 9 cities in Germany. In 2018 and early 2019, CG added more than Euro 700m to the firm's gross development value to date.






CARRÉ PARKAUE Berlin	New Frankfurt Towers Berlin	CARRÉ RAIMAR Berlin	INTERDRUCK PALAIS Leipzig	BAHRENFELDER CARRÉ Leipzig	WEISSERITZ GÄRTEN Dresden
2000 - 2012	2013-2015		2016(3)	2017(3)	
GDV: € 177m(1)	GDV: € 701m(1)		GDV: € 911m(1)	GDV: € 1,100m(1)	

Leipzig | Berlin		Leipzig | Berlin | Cologne		Leipzig | Berlin | Frankfurt | Dresden | Cologne		Top 9 cities	
# of apartments	1,920	# of apartments	1,738	# of apartments	762	# of apartments	681
m² residential	105,387	m² residential	124,922	m² residential	56,752	m² residential	52,187
m² commercial	46,644	m² commercial	60,574	m² commercial	10,660	m² commercial	4,486
# of employees(2)	105	# of employees(2)	223	# of employees	258	# of employees	420
GDV in €m	177	GDV in €m	524	GDV €m	211	GDV in €m	189

Source: Company data

As an example for some sales, recent transaction multiples of four transactions are shown in the table below. As can be see, these multiples are very high and clearly above 20 times. Furthermore, a clear increasing trend of multiples can be seen depending on the time of sale. For other projects, we believe that CONSUS can reach sales prices above 20x, even at projects that are located a bit outside of the top 9 cities such as Dortmund and Erfurt, reflecting the high demand but also the quality of the firm's projects.

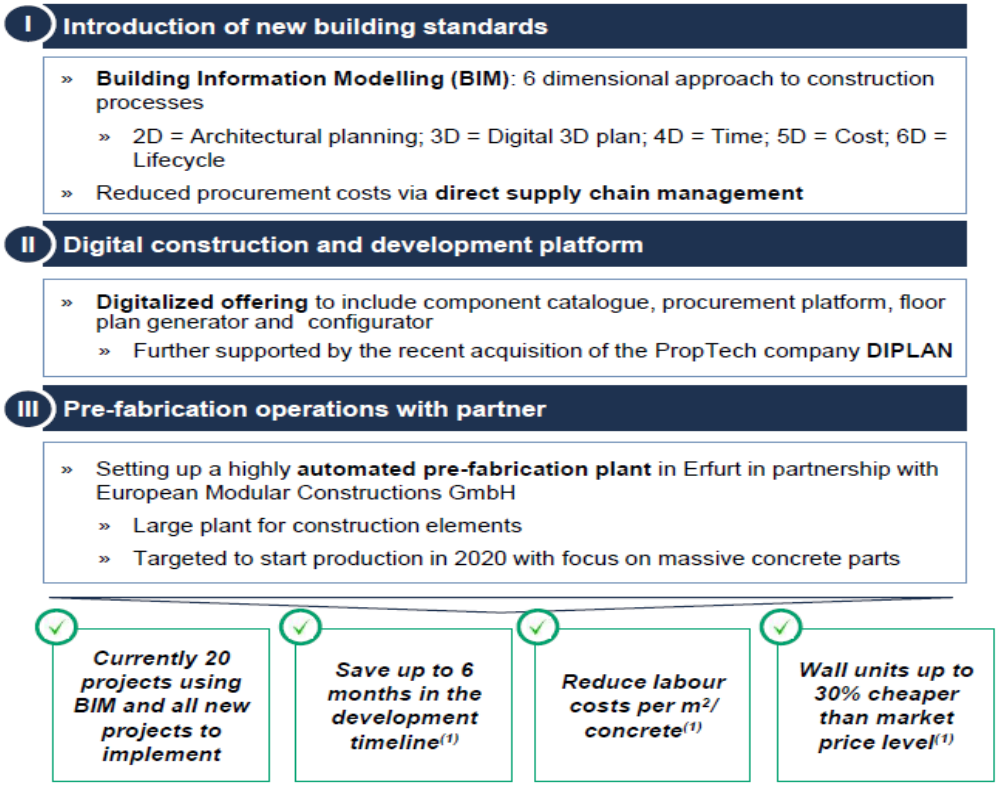
Forward sales multiple achieved on recent transactions

Project	City	Year	multiple
Cologneo I Corpus	Cologne	2018	25.9x
Vitopia Kampus Kaiserlei (G, H)	Frankfurt	2018	25.3x
Carré Löbtau	Dresden	2018	24.0x
Ernst-Reuter-Platz	Berlin	2017	22.8x

Source: Company data

CONSUS as a pioneer in digitalization

CONSUS, through its subsidiary CG Gruppe, is a pioneer in terms of digitalizing the entire value chain of a property. With the introduction of BIM in early 2017, which is short for “Building Information Modeling”, CG Gruppe started with seven pilot projects. By now, 25 BIM-based projects are being planned and from 2019 on, all projects will be realized with BIM. With the help of the six-dimensional made-to-measure solution, the company uses a virtual building model to network planning and construction in order to eliminate planning conflicts at early stages and to avoid delays in construction time. The tool is supposed to reduce costs and time by 10% to 20%, while keeping the quality and individuality at the same high level. Furthermore, life cycle costs like energy and maintenance can be greatly reduced.



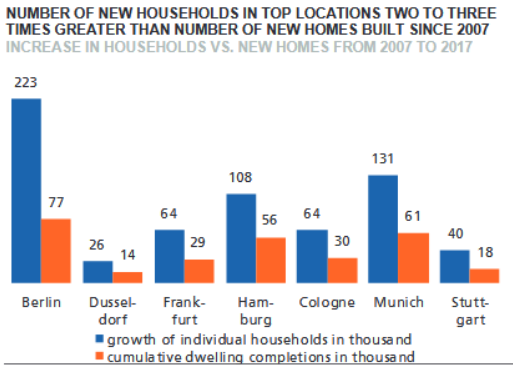
Source: Company data

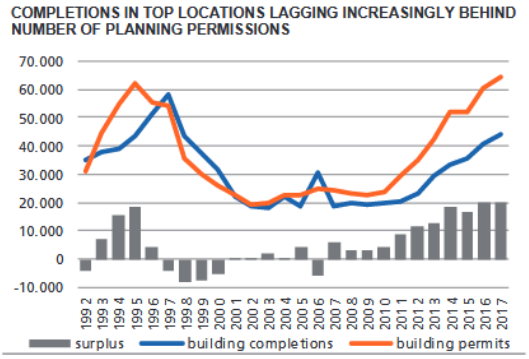
Another step will be the establishment of production capacities with the aid of which components for multi-story residential construction are prefabricated on an industrial scale.

We believe that CONSUS will benefit from the early implementation of such a digital system and can make use of the cost and time savings the system will generate, thereby gaining an edge to their competitors.

A very favorable German residential market offers tremendous opportunities

The German residential market is still very favorable for the business of CONSUS. Next to the fact that Germany is still considered a safe haven economy and represents the largest housing market in Europe, the market is still much undersupplied as the population has grown and construction activities are low. Over the course of the recent ten years, the top 7 cities have grown by about 1 million people while only about 285 thousand apartments were constructed. Between 2011 and 2015 only half of the required apartments were built. Even though now construction is on the rise, there is still a shortage. For the current year and the following few years, the gap between supply and demand is unlikely to shrink, as the factors are persistent. According to Deutsche Bank, completions have risen to about 300.000 units in 2018 and are expected to grow to 315.000 units in 2019, still lacking behind the demand of 350.000 residential units. Furthermore, since 2015, apartment prices exceed construction costs, making it more attractive to build new properties. Thus, we expect that demand remains high, driven by population growth and asset growth. This ensures that CONSUS should benefit from the market conditions in terms of being able to sell their projects at lucrative prices to investors.

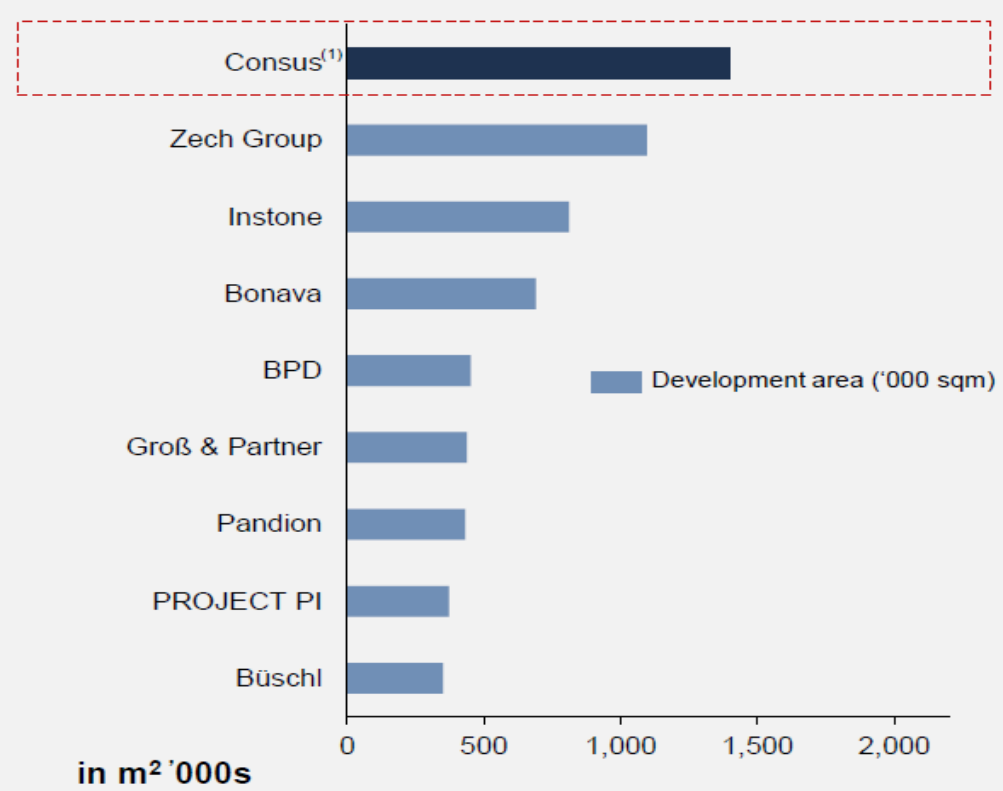




Source: DZ HYP Real Estate Market Germany 2018/2019

CONSUS will also benefit from a highly fragmented development sector in Germany, with limited other large scale companies in the industry. Only a few nationwide companies are relevant in the most German cities. Thus, consolidation opportunities, such as the SSN transaction arise, allowing the big players like CONSUS to significantly increase their pipeline and their expertise.

According to the new Bulwiengesa's "Projektentwicklerstudie Top 9 Cities in Germany" from March 2019, CONSUS is the largest property developer in terms of square meters of development area based on projects until 2023. This is despite the fact, that many of CONSUS' large long-term projects, such as Hamburg Holsten and Stuttgart Vaihingen are not included. This would further widen the gap between CONSUS and its competitors.



Source: Bulwiengesa

Experienced management team with a very profound network in the industry

The firm's management is very experienced and well-known in the industry. CONSUS is led by **Prof. Andreas Steyer as CEO** and **Benjamin Lee as CFO.** Starting 1 May, **Theo Gorens** will be the new **Chief Risk Officer** (**CRO**) and **deputy CFO** of the group.

Mr. Steyer has more than 30 years of real estate experience. Prior to becoming the CEO of CONSUS, he was the CEO of the likewise listed real estate company DEMIRE, where he build up a portfolio of more than Euro 1bn. He also was Managing Director of Deka Immobilen and Partner at EY Real Estate and Arthur Andersen.

Mr. Lee has more than 25 years of corporate finance experience. He previously worked in investment banking at UBS. Furthermore, he was the CFO of a listed mining company. Before joining CONSUS as CFO, he worked as an Investment Director and Aggregate Holdings, the largest shareholder of CONSUS.

Mr. Gorens, has been part of the management board of SSN since 2012 and also part of the extended management board of CONSUS since 2018. Before that, he held multiple executive roles, such as CFO of CFO of Fortis ABN AMRO Germany and in the extended management board of Bethmann Bank.

Next to the three members of the Executive Board, CONSUS appointed an extended management board, responsible for the operational management of the group, the implementation of strategic decisions and the development of the overall business.

The extended management board consists of three members from CONSUS' operational units CG Gruppe and SSN, which are also very experienced and senior people.

- **Christoph Gröner**, CEO of CG Group AG
- **Jürgen Kutz**, COO of CG Group AG
- **Michael Tockweiler**, CEO of SSN group

We believe that the executive board and the extended management board will provide CONSUS with a high level of industry knowledge, a very broad network and a lot of experience. Thus, we believe that the company has the necessary components and people skills to follow up on their strategic goals and continue to be a leader in the German residential development market.

Our DCF valuation offers upside of 80% for the share

For the valuation of the company's share we use a DCF Model

For the valuation of the CONSUS share we use a Discounted Cash Flow valuation model (ENTITY WACC method). We project the free cash flows as derived from EBITDA before PPA for the coming years until 2025 and use the Gordon growth approach for the terminal value. The free cash flow of each year gets discounted to the present using the firm's weighted average cost of capital (WACC). For the years 2019 to 2021 we have our detailed projection stemming from our P & L forecast. For the years after we assume a respective growth rate to derive the values for EBITDA pre PPA. For the years 2022 to 2025 we take a quite conservative 3% growth with regards to tremendous pipeline for these years (even without any new acquisitions) and for 2026 as well as for the Terminal Value we just take a small 1.5% growth into consideration which is more or less not more than an adjustment for monetary inflation. These values are adjusted for tax expenses as well for a general hike in the working capital. Important here is the change in working capital as the company strives to bring up profits and development volume the next years.

Our assumptions lead to a conservative WACC approach of 8.2%, with a long-term growth rate of only 1.5% and a quite high long-term equity ratio of 35%, to be conservative.

For our valuation, we assume a long-term equity ratio of 35% above the current level of 31.0% (excluding minorities 27.0%) for the group including SSN. For a developer with a long-term horizon and without a steady and cash generating Hold portfolio it seems much more appropriate to us to calculate with a higher equity stake which makes the company more weather-proof, in particular for more challenging economic times than the rosy present market climate. For the calculation of our discount rate, WACC, we came to a cost of equity of 12.2%. This number results from the firm's Beta, which we set at 1.8, the risk free rate of 0.5% and a market risk premium of 6.5%. In regards to the firm's cost of debt we assume that a rate of 6.0% should be the most realistic assumption for the coming years. At the moment it is significantly higher, around 8% at group's level, but the management already emphasized that it has a distinct focus to bring it down by at least 2 percentage points in the mid-term,

Management has a clear focus to quickly bring down the Cost of Debt which is much too high at the moment.

No concrete information about the 47% of "smaller" projects which are not in the Top 10 list. With the low visibility here we take a 10% discount in our DCF.

we guess in the next three years. As the CoD is higher at the moment, we apply a 10% discount after the calculation to the CONSUS fair equity value. We do another 10% to reflect the low visibility into the profitability of single projects and missing concrete information about the second half (remaining 47%) of their development pipeline. The management just stated in the conference call on 2018 numbers that the structure is similar to the Top 10 projects which stand for 53% of the project volume. Furthermore, the company does not unveil concrete data about the locations and size of these almost second 50% of their Euro 10bn development pipeline but it also contains some secondary cities like Karlsruhe, Mannheim, Dortmund and Erfurt, where we judge lower multiples in a selling transaction, but being still very lucrative as they have prosperous economic data and a growing population. All these assumptions bring us to a weighted average cost of capital (WACC) of approx. 8.2%. for CONSUS.

Regarding the cash flows, EBITDA pre PPA for the years 2019e to 2021e comes from our detailed P&L forecast. For the years 2022e to 2025e we applied a declining growth rate towards the terminal value, which represents our respective estimates for these years. The values for EBITDA are then adjusted for tax expenses, depreciation and other minor adjustments. The respective free cash flows are then discounted at our calculated discount rate (WACC), resulting in a total sum of free cash flows of more than Euro 1.6bn for the detailed period until 2025 and a Terminal Value for the time after 2025 of almost 2.7bn. Adjusted for the firm's net debt position this results in a fair value of the firm's equity of almost Euro 2.2bn, or more than Euro 16.00 per share respectively. On this equity value per share which is based on rather conservative parameters we still apply a total discount of 20% for the above mentioned low visibility into the single developments and their profitability (-10%) and for the Cost of Debt which has to be significantly reduced in the next years (-10%), to be on the safe side.

Our valuation results in a fair value per share of over Euro 13.00, representing an 80% upside

Even with these discounts we come up with a fair value per share of over Euro 13.00 per share which offers at present a tremendous CONSUS share price upside potential of about 80%.

DCF-Valuation CONSUS Real Estate AG
(WACC Method)

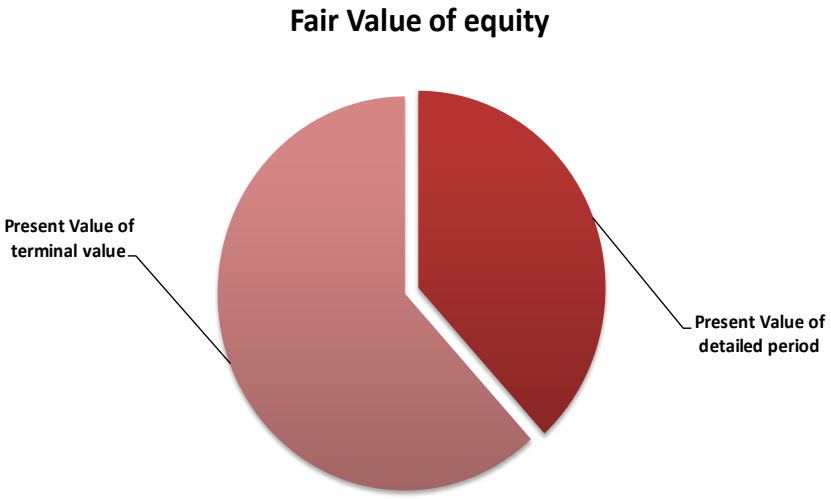
Assumptions

Long-term equity ratio	35%	Beta	1.8
Cost of Equity	12.2%	Risk free rate	0.5%
Cost of Debt	6.0%	Market risk premium	6.5%
Weighted Average Cost of Capital (WACC)	8.17%		
years until first payout	0.7		
Long-term growth for Terminal Value	1.5%		

'000 Euro	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	Terminal Value
EBITDA pre PPA	**351,700**	**457,991**	**538,423**	**554,576**	**571,213**	**588,349**	**606,000**	**615,090**	**624,316**
Tax adjustement	**-49,061**	**-156,034**	**-153,418**	**-183,010**	**-188,500**	**-194,155**	**-199,980**	**-202,980**	**-206,024**
Change in working capital	**-70,000**	**-68,699**	**-80,763**	**-83,186**	**-85,682**	**-88,252**	**-90,900**	**-92,263**	**-93,647**
Free Cash-Flows	**232,639**	**233,258**	**304,242**	**288,379**	**297,031**	**305,942**	**315,120**	**319,847**	**4,867,233**
Discounted Free Cash-Flows	**220,195**	**204,106**	**246,111**	**215,660**	**205,352**	**195,537**	**186,192**	**174,711**	**2,658,640**

Present value of detailed period	1,647,862
Present value of terminal value	2,658,640
Sum of Free Cash-Flows	**4,306,502**
- Net debt (FY 2018 pro-forma)	-2,104,000
Fair Value of Equity	**2,202,502**
Number of shares ('000)	134,527
Fair Value per share	**€ 16.37**
10% Discount for low visibility into the single project profitabilities	*-1.64*
10% Discount for the high CoD level	*-1.64*
Fair Value per share after adjustments	**€ 13.10**
Current share price	**€ 7.25**
Upside:	**80.7%**

Source: SRC Research



The sensitivity analysis with regards to the WACC and the growth rate for the Terminal Value offers a most realistic fair value range of about Euro 11.00 to Euro 16.00 for the CONSUS share price.

Our scenario analysis allows a most realistic share price target range of between Euro 11.00 and Euro 16.00 for the CONSUS share

Long-term growth of TV \ WACC	7.2%	7.7%	8.2%	8.7%	9.2%
1.00%	15.93	13.78	11.92	10.31	8.90
1.25%	16.75	14.45	12.49	10.79	9.31
1.50%	17.64	15.18	13.10	11.30	9.74
1.75%	18.61	15.98	13.75	11.85	10.21
2.00%	19.68	16.84	14.46	12.44	10.70

Source: 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	20,124	25,143	23,445	-7.5%
Income from real estate inventory disposed of	205,558	163,515	163,515	27,898	28,147	147,447	
Income from property development	15,717	408,461	443,830	1,763,214	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**	**1,831,380**	**2,394,726**	**2,228,903**	**50.4%**
Change in project related inventory	302,183	-147,352	-31,464	-251,369	-362,789	-147,881	
Overall performance	**552,777**	**467,619**	**624,104**	**1,580,011**	**2,031,937**	**2,081,022**	**49.4%**
Expenses from letting activities	-2,723	-16,083	-14,741	-11,545	-12,558	-11,447	
Cost of materials	-300,601	-285,600	-367,182	-1,202,230	-1,522,587	-1,499,117	59.8%
Valuation result	4,844	25,631	25,631	1,257	2,103	3,544	
Other operating income	14,708	13,241	14,642	1,247	1,127	2,753	
Personnel expenses	-34,865	-36,911	-50,995	-57,441	-60,114	-61,449	
Other operating expenses	-55,511	-59,997	-75,989	-101,478	-102,334	-101,442	
EBITDA	**178,629**	**107,901**	**155,470**	**209,821**	**337,574**	**413,864**	**38.6%**
Depreciation and amortization	-2,204	-2,175	-3,026	-3,556	-4,592	-5,122	
EBIT	**176,425**	**105,726**	**152,444**	**206,265**	**332,982**	**408,742**	**38.9%**
Financial income	14,202	4,620	11,467	7,689	8,557	8,770	
Financial expenses	-205,289	-121,834	-209,783	-187,423	-169,478	-159,446	
Pre-tax profit (EBT)	**-14,662**	**-11,488**	**-45,872**	**26,531**	**172,061**	**258,066**	
Income tax	-1,209	11,192	21,617	-3,701	-58,620	-86,447	
Tax rate				13.9%	34.1%	33.5%	
Net profit before minorities	**-15,871**	**-296**	**-24,255**	**22,830**	**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	**19,318**	**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**	**0.17**	**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	141,879	120,417	124,559	
One-off expenses		13,493	15,458	0	0	0	
EBITDA before PPA		**203,656.0**	**253,190.0**	**351,700.0**	**457,991.0**	**538,423.0**	**28.6%**
Shareholders' Equity (incl. minorities)	**816,009**	**1,162,539**	**1,162,539**	**1,185,369**	**1,298,810**	**1,443,524**	**7.5%**
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**	**3,834,931**	**3,903,960**	**4,138,198**	
Equity Ratio	**31.1%**	**31.0%**	**31.0%**	**30.9%**	**33.3%**	**34.9%**	
RoE (after tax)	**-1.9%**	**0.0%**	**-2.5%**	**1.9%**	**9.1%**	**12.5%**	
Book Value per share (Euro)	**8.09**	**7.51**	**7.51**	**7.64**	**8.46**	**9.51**	**8.2%**

SRC Research
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Rating chronicle:

As this research report is an initiating coverage there is no rating chronicle available.

Please note:
The share price mentioned in this report is from 24 April 2019. CONSUS Real Estate AG mandated SRC Research for covering the share.