



Buy (unchanged) **Target: Euro 44.00** (old: Euro 54.00)

25 | March | 2020

Difficult times with a hotel exposure but 60% of pipeline is residential and office and the balance sheet is stronger than ever after the former record profit years - Buy affirmed, target price down to Euro 44.00

Yesterday, UBM released an update regarding the global COVID-19 pandemic. UBM has a portfolio of 13 hotels where the firm has given lease guarantees to the hotel owners like Union, Deka, Amundi and would normally get income from the hotel operations from the hotel operators (InterContinental, Radisson, Kempinski etc.) while paying management fees to them for running the business. In this "middle man position" UBM suffers from the more or less Zero traffic in most of hotels at present. UBM gave a scenario of a Zero business of these 13 hotels until the beginning of June which would mean a cautious approach of another more than 2 months with no earnings from now. In such a scenario the pre-tax burden for the P & L of UBM is about Euro -10m. 5 of the 13 hotels are in Germany (Munich, Frankfurt and Berlin), 1 Austrian hotel (Tirol Jochberg), 6 in Poland (Warsaw, Cracow, Wroclaw and Gdansk) and 1 Dutch hotel (Crowne Plaza Amsterdam). After the Zero period until June, UBM expects a gradual ramp-up. **We judge this scenario to be realistic or even more to be quite conservative. We could also imagine that there might come talks with the hotel owners to bring down the rents in this very extraordinary global Pandemic situation at least a bit.**

With regards to the pipeline, about 60% of the Euro 2bn pipeline (sales volume expected end of 2022) are not hotels but residential (40%) and office (20%), giving much more stability for future earnings. Also keep in mind that UBM has a strong financial position after earning very good money in the last three years 2017 to 2019 with bottom line results of close to Euro 40m or Euro 50m each year and many very lucrative sales transactions already done (Zalando Berlin, QBC 1 & 2 Vienna, Hyatt Amsterdam, The Brick Hamburg etc etc). The company has an equity ratio of above Euro 35% and cash of over Euro 200m. Keep in mind that all project financing is already and long-term secured by a number of banks in the single project firms.

The governments in Germany and Austria where UBM has its major part of the pipeline reacted very quickly and strongly to dampen all negative economic implications, so we see these 2 countries as very safe haven to invest in European real estate. Also keep in mind the recent bond issue of Euro 120m for six years and a cheap 2.75% coupon in 4Q 2019 and another Euro 120m bond from 2018, with a cheap 3.125% coupon which is due in November 2023, also a very long distance from now. With regards to the hotel pipeline of 7 hotels which are in current development, 3 are already sold, the Super 8 Mainz (already more or less completed), and the Polish Mercure Katowice and Ibis Styles Cracow (to be completed in 2H 2021). 4 hotels are not sold yet, but we do not see any big problem as these are the Dutch upscale Voco The Hague hotel and the German Potsdam based "Am Kanal" hotel (both completed in about 1 year) and Dusseldorf Holiday Inn and Prague Sugar Palace coming in 2H 2021. We cut our 2020 net profit forecast from Euro 61m to Euro 37m and our 2021 forecast from Euro 70m to Euro 51m. We bring down our 2019 dividend forecast from Euro 2.60 to a stable Euro 2.20. The share price slump is massively exaggerated with a price-to-book of below 0.5x, with a 2020 PE ratio after our deep cuts of only 5.5x (2021e: 4.0x) and a dividend yield of over 8%. **We clearly maintain the Buy rating. Our new target price is Euro 44.00, after Euro 54.00 before Corona.**

Price (Euro)	27,20			
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)	203,2			
Number of shares (million)	7,47			
Free Float	47,2%			
Free Float MCap (million)	95,9			
CAGR pre tax profit '18 - '21e	8,4%			
Multiples	2018	2019e	2020e	2021e
MarketCap/revenues	0,40	0,76	0,44	0,40
PE ratio	5,1	4,2	5,5	4,0
Dividend yield	8,1%	8,1%	8,1%	8,1%
Price-to-Book ratio	0,47	0,44	0,42	0,39
Key Data per Share (Euro)	2018	2019e	2020e	2021e
Earnings per share (EPS)	5,31	6,48	4,92	6,79
Dividends per share (DPS)	2,20	2,20	2,20	2,20
Book Value per share (BVpS)	57,40	61,59	64,31	68,90
Financial Data (Euro '000)	2018	2019e	2020e	2021e
Revenues	514.048	265.896	466.557	510.005
Operating profit (EBITDA)	58.888	75.957	62.049	83.533
Operating profit (EBIT)	55.942	72.703	57.495	78.545
Pre-tax profit (EBT)	55.544	64.737	51.153	70.841
Net profit (after minorities)	39.711	48.391	36.779	50.722
Adj. shareholders' equity	428.902	460.189	480.530	514.814
RoE after tax	10,2%	10,9%	7,8%	10,2%
Financial Calendar				
Annual report 2019				27 April 2020
1Q report 2020				26 May 2020
AGM				28 May 2020
2Q report 2020				27 August 2020
SRC Forum Financials & Real Estate				10 September 2020
Main Shareholders				
Syndicate Ortner/ Strauss				38,8%
IGO Ortner Gruppe				5,3%
J. Dickinger				5,0%
Management & Supervisory board				3,7%
Analysts	Dipl.-Kfm. Stefan Scharff, CREA			
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UBM Development AG

Industry: Real Estate Development
Sub-segment: Resi, Office, Hotels
Country: Austria
Headquarter: Vienna
Foundation: 1873
Employees: 368

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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.

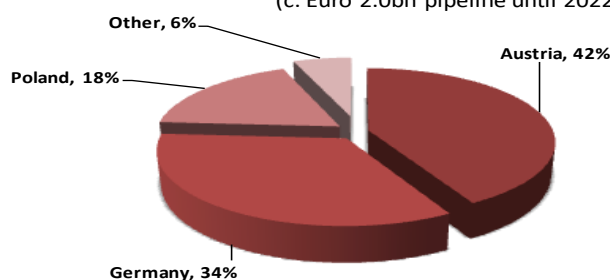
In 1992 the firm started to develop numerous lucrative projects in Eastern Europe, in particular in Poland and Czech Republic. Between 2001 and 2010 UBM entered some opportunistic markets like France and the Netherlands with hotels. In 2014 PORR, the Vienna-based construction and development conglomerate 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 (S&P) to the "new" UBM Development AG, which will act in the future as a pure-play trade developer. As a consequence of the intended portfolio reduction in 2015 and 2016, the firm will focus on the home markets Austria, Germany and Poland. At the moment the portfolio has a size of c. Euro 1.3bn (as of 30 September 2019), thereof 39% in Austria, 30% in Germany and 19% Poland. The remaining 12% is widely spread in several countries.

In 2018, the numbers marked a new record year as UBM had a net profit of almost Euro 40m. Furthermore, UBM paid a record dividend of Euro 2.20 per share, representing a yield of almost 6%, which is the highest of all Austrian real estate firms. For 2019, the company expects the net profit to steeply increase again to a range of Euro 47m to Euro 50m. Even this optimistic guidance might be a bit too cautious regarding the good progress in trading activities, so far in this year.

The fast track 2017 program was a full success as well. The company managed to reduce their net debt position by about 31% to only Euro 478m in 2017 and to Euro 422m in 2018. The 9M 2019 net debt was at about the same level at Euro 419m while the current project pipeline climbed to Euro 2.0bn despite numerous sales in 1H 2019.

Pipeline split as of 30 September 2019

(c. Euro 2.0bn pipeline until 2022)



Source: Company data, SRC Research

P & L UBM Development AG

31/12 IFRS (Euro '000 except for per share-data)	2016	2017	2018	2019e	2020e	2021e	CAGR '18 - '21e
Revenues	417.020	364.668	514.048	265.896	466.557	510.005	-0,3%
Changes in the portfolio	-36.961	-24.051	-42.405	13.489	-26.445	-19.778	
Own work capitalised in non-current assets	0	0	0	0	0	0	
Share of profit/loss of companies accounted for under the equity method	25.124	16.469	35.921	45.136	8.618	14.554	
Income from fair-value adjustments to investment property	54.570	39.420	223	54.771	412	14.112	
Other operating income	7.450	30.576	10.652	9.658	21.445	13.544	
Cost of materials and other related production services	-300.372	-273.429	-352.422	-208.476	-321.995	-357.231	
Staff expenses	-44.278	-41.389	-45.318	-32.145	-33.258	-35.741	
Expenses from fair-value adjustments to investment property	-20.514	-9.218	-7.340	-20.586	-4.511	-4.475	
Other operating expenses	-52.427	-50.601	-54.471	-51.786	-48.774	-51.457	
Operating profit (EBITDA)	49.612	52.445	58.888	75.957	62.049	83.533	
Depreciation, amortisation and impairment expenses	-3.406	-3.827	-2.946	-3.254	-4.554	-4.988	
Operating profit (EBIT)	46.206	48.618	55.942	72.703	57.495	78.545	12,0%
Financial income	13.147	21.233	32.001	15.545	16.445	18.597	
Finance costs	-19.288	-19.387	-32.399	-23.511	-22.787	-26.301	
Financial result	-6.141	1.846	-398	-7.966	-6.342	-7.704	
Earnings before tax (EBT)	40.065	50.464	55.544	64.737	51.153	70.841	8,4%
Income tax expense	-10.709	-13.498	-16.057	-14.557	-14.054	-19.245	
Tax rate	26,7%	26,7%	28,9%	22,5%	27,5%	27,2%	
Net profit before minorities	29.356	36.966	39.487	50.180	37.099	51.596	9,3%
Minorities	-247	-503	224	-1.789	-320	-874	
Net profit after minorities	29.109	36.463	39.711	48.391	36.779	50.722	8,5%
Earnings per share (EPS)	3,90	4,88	5,31	6,48	4,92	6,79	
Dividends per share (DPS)	1,60	2,00	2,20	2,20	2,20	2,20	0,0%
Payout ratio	41,1%	41,0%	41,4%	34,0%	44,7%	32,4%	
Number of shares ('000)	7.472	7.472	7.472	7.472	7.472	7.472	
Adjusted shareholders' equity without minorities	333.893	352.146	428.902	460.189	480.530	514.814	
Total assets	1.233.761	1.130.933	1.234.655	1.395.160	1.439.805	1.554.990	
Equity ratio	27,7%	31,4%	35,3%	33,6%	34,0%	33,7%	
Book value per share (BVpS)	44,68	47,13	57,40	61,59	64,31	68,90	6,3%
RoE (after tax)	8,9%	10,6%	10,2%	10,9%	7,8%	10,2%	
* Figures of UBM Realitäten AG (before merger)							
Key ratios & figures	2016	2017	2018	2019e	2020e	2021e	
Growth rates in %							
Sales revenues	35,5%	-12,6%	41,0%	-48,3%	75,5%	9,3%	
EBIT	-37,3%	5,2%	15,1%	30,0%	-20,9%	36,6%	
EBT	-20,3%	26,0%	10,1%	16,6%	-21,0%	38,5%	
Net profit after minorities	-13,9%	25,3%	8,9%	21,9%	-24,0%	37,9%	
Margins in %							
Operating profit (EBIT)	11,1%	13,3%	10,9%	27,3%	12,3%	15,4%	
Pre-tax profit (EBT)	9,6%	13,8%	10,8%	24,3%	11,0%	13,9%	
Net Profit (after minorities)	7,0%	10,0%	7,7%	18,2%	7,9%	9,9%	
Expense ratios in %							
Personnel costs to sales	10,6%	11,3%	8,8%	12,1%	7,1%	7,0%	
Cost of material to sales	72,0%	75,0%	68,6%	78,4%	69,0%	70,0%	
Depreciation to sales	0,8%	1,0%	0,6%	1,2%	1,0%	1,0%	
Profitability in %							
Return on equity (RoE) after tax	8,9%	10,6%	10,2%	10,9%	7,8%	10,2%	
Return on assets (RoA)	2,4%	3,2%	3,2%	3,5%	2,6%	3,3%	
Valuation							
P/E-ratio	7,0	5,6	5,1	4,2	5,5	4,0	
Price/ BV per Share	0,61	0,58	0,47	0,44	0,42	0,39	
Dividend yield	5,9%	4,9%	8,1%	8,1%	8,1%	8,1%	

SRC Research

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Rating Chronicle	Date	Rating	Former Price	Former Target
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 €
UBM Development AG	23 January 2018	Accumulate	42,50 €	46,00 €
UBM Development AG	28 November 2017	Buy	39,48 €	46,00 €
UBM Development AG	13 October 2017	Buy	38,94 €	46,00 €
UBM Development AG	29 August 2017	Buy	38,30 €	44,00 €
UBM Development AG	31 May 2017	Buy	35,30 €	44,00 €

Please note:

The UBM share price mentioned in this report is from 24 March 2020. UBM mandated SRC Research for covering the UBM share.

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