UBM Development AG

THOMSON REUTERS ANALYST AWARDS 2017 WINNER

SRC Der Spezialist für Finanzaktien

Buy (old: Accumulate) **Target: Euro 50.00** (old: Euro 46.00)

7 | March | 2018

Price (Euro)	**40.00**
52 weeks range	44.10 / 32.01

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)	298.9
Number of shares (million)	7.47
Free Float	50.4%
Free Float MCap (million)	150.6
CAGR pre tax profit '16 - '19e	12.6%

Multiples	**2016**	**2017e**	**2018e**	**2019e**
MarketCap/revenues	0.72	0.77	0.75	0.73
PE ratio	**10.3**	**8.6**	**7.4**	**7.3**
Dividend yield	**4.0%**	**5.0%**	**5.5%**	**5.8%**
Price-to-Book ratio	**0.90**	**0.87**	**0.64**	**0.61**

Key Data per Share (Euro)	**2016**	**2017e**	**2018e**	**2019e**
Earnings per share (EPS)	**3.90**	**4.64**	**5.40**	**5.51**
Dividends per share (DPS)	**1.60**	**2.00**	**2.20**	**2.30**
Book Value per share (BVpS)	44.68	46.06	62.38	65.59

Financial Data (Euro '000)	**2016**	**2017e**	**2018e**	**2019e**
Revenues	**417,020**	**388,742**	**400,589**	**409,413**
Operating profit (EBITDA)	**49,612**	**56,013**	**75,534**	**75,494**
Operating profit (EBIT)	46,206	52,321	72,193	72,154
Pre-tax profit (EBT)	40,065	49,855	55,888	57,241
Net profit (after minorities)	**29,109**	**34,658**	**40,362**	**41,165**
Adj. shareholders' equity	333,893	344,147	466,109	490,089
RoE after tax	**8.9%**	**10.2%**	**10.0%**	**8.6%**

Financial Calendar

2017 Annual Report	10 April 2018
AGM	29 May 2018
1Q 2018 report	30 May 2018
1H 2018 report	30 August 2018

Main Shareholders

Syndicate Ortner/ Strauss	38.8%
Management & Supervisory board	10.8%

Analysts **Dipl.-Kfm. Stefan Scharff, CREA**
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Fast Track 2017 program was a full success, as net debt is down 31% and EBT increased by 25% – Rating up to Buy and target price lifted to Euro 50.00

Yesterday, UBM released first key data for their 2017 fiscal year and reported on a very successful year, coined by the firm's initiated fast track 2017 program. Pre-tax profit was at about Euro 50m on a preliminary basis clearly above our estimate of Euro 46m, representing a hike of about 25% compared to 2016 numbers. This result was driven by an increase in total output, which climbed by 33% from almost Euro 560m in 2016 to about Euro 740m. Furthermore, the company also overachieved on its targeted net debt reduction. Initially, UBM guided a net debt reduction from more than Euro 690m at year-end 2016 to about Euro 550m, which later was revised with the release of 3Q numbers to Euro 520m. Due to the sale of the Kotlarska office just before the year-end, on which we reported with our update from 23 January, and an unexpectedly high down payment on a residential project, the year-end 2017 net debt position was further decreased and finally clearly beat the guidance at c. Euro 480m. Based on that preliminary number, the firm managed to reduce their net debt position by an impressive 31%.

Another positive effect of the fast track 2017 program is the reduction in total assets on the firm's balance sheet, which shrank from more than Euro 1.23bn to Euro 1.13bn. Together with the strong earnings, this led to a hike of UBM's equity ratio from 27.7% at year-end 2016 to now approx. 31%. This number has further improved with the recent issuance of a Euro 100m hybrid bond, as announced on 22 February. The instrument was directed exclusively to institutional investors and resulted in a significantly broader investor base, as investors from Austria, Germany, Luxembourg and France subscribed. The hybrid has an early redemption option after 5 years and a 5.5% coupon. The proceeds are to be used to finance future projects and possibly for refinancing purposes.

We assess UBM's FY 2017 and the fast track program as very successful. The firm more than delivered on all their goals, which were set by the management at the beginning of the year. With the operational performance in 2017, the strengthening of the balance sheet and the strong pipeline, we see the company well positioned for the coming years. This led us to increase our estimates for 2018 and 2019. We now estimate a pre-tax profit of almost Euro 56m for 2018 and a further hike in 2019. Thus, we decided to lift our target price from Euro 46.00 to Euro 50.00. We also decided to lift our rating from Accumulate to Buy, as we currently see an upside for the share of 25%.

UBM Development AG

Industry:	Real Estate Development
Sub-segment:	Resi, Office, Hotels
Country:	Austria
Headquarter:	Vienna
Foundation:	1873
Employees (9M 2017):	773

* of which hotel staff: 467

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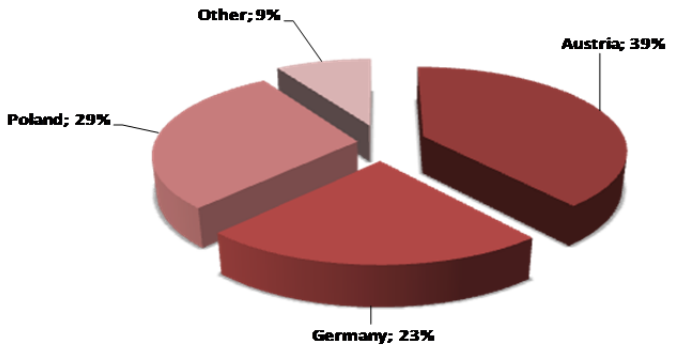
Management Board of UBM
Thomas G. Winkler, LL.M. (CEO)
Patric Thate (CFO)
Dipl.-Ing. Martin Löcker (COO)

Supervisory Board of UBM
Ing. Karl-Heinz Strauss (Chairman)
DI Iris Ortner (Dep. Chairwoman)
MMag. Christian Maier
DI Klaus Ortner
Dr. Ludwig Steinbauer
Mag. Paul Unterluggauer
Dr. Bernhard Vanas
Dr. Susanne Weiss

Founded in 1873 as "Union-Baumaterialien-Gesellschaft" the company has now an outstanding history of more than 140 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 marktes like France and the Netherlands with hotels. In 2014 PORR, the Vienna-based construction and development conglomerate decided to seperate its non-core real estate development activities from its construction activities with the destination to create two pure play entities and seperately listed companies. In this spirit, PIAG was used as a spin-off vehicle which held PORR`s non-core realestate 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 30.09.2017), thereof 39% is in Austria, 23% in Germany and 29% Poland. The remaining 9% is widely spread in several countries (France, Netherlands, CZ etc.). In addition to the regional focus, UBM is geared only on three asset classses, namely residential (26%), hotel (20%) and office (39%). UBM Development has the clear target to realize further synergies of the merger strives to optimize its balance sheet reducing the net debt, the gearing and thus to reduce the overall financial expenses.
In 2016, numbers were below 2015 record numbers due to lower total output and a reduced net effect in regards to fair value adjustments as compared to 2015. The company however continued to reduce their net debt position and has a strong pipeline for the coming years.
2017 marked another very good year for UBM, as the fast track 2017 program was a full success. The company managed to reduce their net debt position by about 31% to only Euro 480m and pre-tax profit increased by 25% from Euro 40m to Euro 50m, both on a preliminary basis.

Portfolio split as of 30 Sep 2017
(c. Euro 1.3bn assets)



Source: Company data, SRC Research

P & L UBM Development AG

31/12 IFRS (Euro '000 except for per share-data)	2013*	2014*	Pro forma 2014	2015	2016	2017e	2018e	2019e	CAGR '16 - '19e
Revenues	**217,226**	**241,140**	**315,317**	**307,781**	**417,020**	**388,742**	**400,589**	**409,413**	*-0.6%*
Changes in the portfolio			26,503	45,105	-36,961	-19,213	38,547	35,276	
Own work capitalised in non-current assets	310	925	925	1,205	0	1,100	1,100	1,100	
Share of profit/loss of companies accounted for under the equity method	12,764	15,683	24,817	25,322	25,124	12,736	7,288	7,953	
Income from fair-value adjustments to investment property	0	4,421	5,810	29,675	54,570	23,750	13,987	14,064	
Other operating income	2,269	4,222	7,137	8,759	7,450	27,452	7,450	7,628	
Cost of materials and other related production services	-145,539	-178,547	-244,570	-252,720	-300,372	-287,547	-297,455	-301,589	
Staff expenses	-20,385	-21,523	-34,193	-37,305	-44,278	-42,565	-43,562	-44,036	
Expenses from fair-value adjustments to investment property	-12,749	0	-2,880	-3,109	-20,514	-3,012	-2,954	-3,142	
Other operating expenses	-22,043	-21,523	-34,193	-48,263	-52,427	-45,430	-49,456	-51,173	
Operating profit (EBITDA)	**31,853**	**44,798**	**64,673**	**76,450**	**49,612**	**56,013**	**75,534**	**75,494**	
Depreciation, amortisation and impairment expenses	-2,453	-2,384	-3,339	-2,807	-3,406	-3,692	-3,341	-3,340	
Operating profit (EBIT)	**29,400**	**42,414**	**61,334**	**73,643**	**46,206**	**52,321**	**72,193**	**72,154**	*16.0%*
Financial income	6,395	6,690	12,449	7,407	13,147	18,213	6,145	6,957	
Finance costs	-17,952	-18,087	-34,524	-30,765	-19,288	-20,679	-22,450	-21,870	
Financial result	**-11,556**	**-11,397**	**-22,075**	**-23,358**	**-6,141**	**-2,466**	**-16,305**	**-14,913**	
Earnings before tax (EBT)	**17,843**	**31,017**	**39,259**	**50,285**	**40,065**	**49,855**	**55,888**	**57,241**	*12.6%*
Income tax expense	-4,316	-3,174	-3,151	-12,952	-10,709	-13,952	-14,601	-14,978	
Tax rate	24.2%	10.2%	8.0%	25.8%	26.7%	28.0%	26.1%	26.2%	
Net profit before minorities	**13,528**	**27,843**	**36,108**	**37,333**	**29,356**	**35,903**	**41,287**	**42,263**	*12.9%*
Minorities	-672	-455	-2,064	-3,525	-247	-1,245	-925	-1,098	
Net profit after minorities	**12,856**	**27,388**	**34,044**	**33,808**	**29,109**	**34,658**	**40,362**	**41,165**	*12.2%*
Earnings per share (EPS)	2.14	4.56	5.66	4.90	3.90	4.64	5.40	5.51	
Dividends per share (DPS)	0.62	1.25	1.25	1.60	1.60	2.00	2.20	2.30	*12.9%*
Payout ratio	28.9%	27.4%	22.1%	32.7%	41.1%	43.1%	40.7%	41.7%	
Number of shares ('000)	6,000	6,010	6,010	6,902	7,472	7,472	7,472	7,472	
Adjusted shareholders' equity without minorities	**161,867**	**178,375**	**133,869**	**323,196**	**333,893**	**344,147**	**466,109**	**490,089**	
Total assets	**630,776**	**756,374**	**1,077,384**	**1,185,236**	**1,233,761**	**1,129,873**	**1,252,410**	**1,271,196**	
Equity ratio	**25.7%**	**23.9%**	**12.4%**	**28.0%**	**27.7%**	**31.1%**	**37.8%**	**39.2%**	
Book value per share (BVpS)	**26.98**	**29.68**	**22.27**	**46.83**	**44.68**	**46.06**	**62.38**	**65.59**	*13.6%*
RoE (after tax)	8.2%	16.1%	25.4%	14.8%	8.9%	10.2%	10.0%	8.6%	

* Figures of UBM Realitäten AG (before merger)

Key ratios & figures	2013*	2014*	Pro forma 2014	2015	2016e	2017e	2018e	2019e
Growth rates in %								
Sales revenues	62.1%	11.0%	n.a.	-2.4%	35.5%	-6.8%	3.0%	2.2%
EBIT	142.1%	44.3%	n.a.	20.1%	-37.3%	13.2%	38.0%	-0.1%
EBT	38.6%	73.8%	n.a.	28.1%	-20.3%	24.4%	12.1%	2.4%
Net profit after minorities	-0.3%	113.0%	n.a.	-0.7%	-13.9%	19.1%	16.5%	2.0%
Margins in %								
Operating profit (EBIT)	13.5%	17.6%	19.5%	23.9%	11.1%	13.5%	18.0%	17.6%
Pre-tax profit (EBT)	8.2%	12.9%	12.5%	16.3%	9.6%	12.8%	14.0%	14.0%
Net Profit (after minorities)	5.9%	11.4%	10.8%	11.0%	7.0%	8.9%	10.1%	10.1%
Expense ratios in %								
Personnel costs to sales	9.4%	8.9%	10.8%	12.1%	10.6%	10.9%	10.9%	10.8%
Cost of material to sales	67.0%	74.0%	77.6%	82.1%	72.0%	74.0%	74.3%	73.7%
Depreciation to sales	1.1%	1.0%	1.1%	0.9%	0.8%	0.9%	0.8%	0.8%
Profitability in %								
Return on equity (RoE) after tax	8.2%	16.1%	25.4%	14.8%	8.9%	10.2%	10.0%	8.6%
Return on assets (RoA)	2.0%	3.6%	3.2%	2.9%	2.4%	3.1%	3.2%	3.2%
Valuation								
P/E-ratio	18.7	8.8	7.1	8.2	10.3	8.6	7.4	7.3
Price/ BV per Share	1.48	1.35	1.80	0.85	0.90	0.87	0.64	0.61
Dividend yield	1.6%	3.1%	3.1%	4.0%	4.0%	5.0%	5.5%	5.8%

* reported figures of UBM Realitäten AG

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Rating Chronicle	Date	Rating	Former Price	Former Target
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 €
UBM Development AG	07 April 2017	Buy	33,10 €	44,00 €
UBM Development AG	07 March 2017	Buy	32,78 €	44,00 €
UBM Development AG	23 November 2016	Buy	30,95 €	48,00 €
UBM Development AG	01 September 2016	Buy	32,80 €	52,00 €
UBM Development AG	27 April 2016	Buy	34,00 €	58,00 €
UBM Development AG	25 February 2016	Buy	30,95 €	58,00 €
UBM Development AG	11 February 2016	Buy	30,22 €	58,00 €

Please note:
The UBM share price mentioned in this report is from 6 March 2018. UBM mandated SRC Research for covering the UBM share.

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