publity AG

Buy (unchanged) **Target: Euro 50.00 (unchanged)**

5 | October | 2020

Der Spezialist für Finanzaktien

Price (Euro)	**35.85**			
52 weeks range	40.70 / 26.55			
Key data				
ISIN	DE0006972508			
Bloomberg	PBY:GR			
Reporting Standard	IFRS			
Market Cap (million)	534.2			
Number of shares (million)	14.9			
Free Float	13.0%			
Free Float Market Cap (million)	69.4			

Multiples	**2019**	**2020e**	**2021e**	**2022e**
Maket Cap / Revenues	26.3	5.2	3.0	2.8
Price-Earnings Ratio (PER)	**6.8**	**3.9**	**2.5**	**2.6**
Dividend yield	0.0%	8.4%	11.2%	11.2%
Return on Equity (RoE)	30.4%	44.7%	48.3%	35.1%

Key data per share (Euro)	**2019**	**2020e**	**2021e**	**2022e**
Earnings per share	5.25	9.14	14.49	14.05
Dividend per share	0.00	3.00	4.00	4.00

Financial Data (Euro '000)	**2019**	**2020e**	**2021e**	**2022e**
Revenues	20,323	102,225	178,669	192,471
Gross profit	**9,720**	**70,078**	**122,388**	**133,382**
Personnel expenses	-2,547	-2,977	-3,247	-3,655
Remeasurements	122,230	230,147	322,585	332,147
EBIT	**116,299**	**285,279**	**428,477**	**447,582**
Interest income	6,127	1,258	2,476	1,347
Interest expenses	-14,360	-72,584	-105,331	-123,832
EBT	**79,776**	**209,504**	**321,702**	**318,830**
Tax	-15,616	-48,186	-73,992	-73,331
Net income	**64,161**	**161,318**	**247,711**	**245,499**

Main Shareholder	
Thomas Olek	38.0%
Financial Calendar	
2020 annual report	March 2021
AGM	May 2021

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Strong 1H 2020 with EBIT almost tripling. AuM are to be doubled in two years – we maintain our Euro 50,00 target price and our Buy recommendation

The EBIT almost tripled from Euro 26.9m (1H 2019) to Euro 74.9m. At the same time, the group result went up by more than 50% from Euro 21.7m in 1H 2019 to Euro 34.7m. Equity increased from Euro 302.5m to Euro 406.4m simultaneously with the significant growth in total assets. Assets under management are expected to grow from the current Euro 5.5bn to over Euro 10bn by 2023.

publity was able to master the business activities extremely well despite the crisis. According to publity, the segment of prime office properties is proving to be an extremely robust one. In addition, publity has a stable business model with the two pillars of asset management and investment. Solid sales were also recently posted from asset management for institutional investors. At the same time, transactions were carried out and value gains were realized through property sales. Publity continues to concentrate on the top 7 cities in Germany and was able to achieve significant reductions in vacancy rates for its customers.

Besides to its operational success, publity was also able to improve its investor and capitalization base. In total, strategy and long-term oriented investors acquired a share of 49%. The stake held by the main shareholder, Thomas Olek, was reduced to 38%. At the same time the main shareholder and the new investors committed themselves to a lock-up period of 12-24 months. After fixing the financing deals at the beginning of the year with Mehritz and Helaba, a total of Euro 75m in debt was raised by the end of September by issuing a corporate bond with a coupon of 5.5% (2020/2025). Furthermore, the old convertible bond 2015/2020 was financed by the new one 2020/2025.

In addition to the high level of activity in terms of operational and strategic development, publity's CEO Thomas Olek is in talks to switch to the PREOS subsidiary at the end of 2020. The PREOS subsidiary is currently undergoing a major development towards becoming a technology company, which Thomas Olek would like to push ahead with even more concentration. publity remains the most important partner of the subsidiary PREOS with its specially developed object database with meanwhile over 9,500 objects and market access and a strong network.

We stick to our forecast and see this confirmed by the latest developments despite the Covid 19 pandemic. We therefore consider our previous price target of Euro 50.00 to be appropriate and reaffirm the Buy rating, which gives the publity share a price potential of almost 40%.

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SRC Der Spezialist für Finanzaktien

publity AG

Industry:	Real Estate
Sub-segment:	Office/ Commercial
Country:	Germany
Headquarter:	Frankfurt
Foundation:	1999

Management Board of publity AG
Thomas Olek (CEO)
Frank Schneider (COO)
Stephan Kunath (CFO)

Supervisory Board
Hans-Jürgen Klumpp (Chairman)
Prof. Dr. Holger Till (Dep. Chairman)
Frank Vennemann

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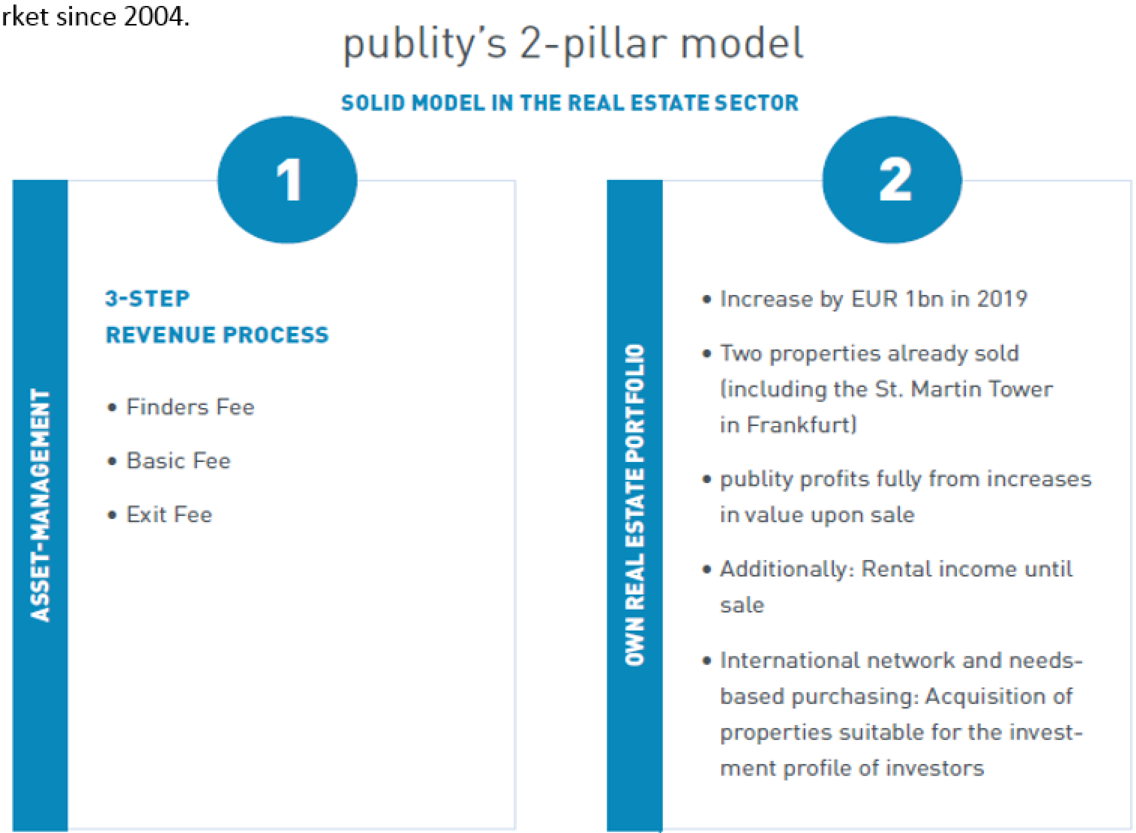
publity was founded in 1999 in partnership with Landesbank Sachsen, Landesbank Baden-Württemberg, Nord LB and HSBC Trinkaus. In 2003, Thomas Olek became the majority shareholder and CEO of publity AG. Under his leadership, publity AG has been active in the German real estate market since 2004.



The company is an office real estate asset manager and investor, focusing on the main metropolitan regions of Germany (Top 7) and has branches in the main financial places like New York, London, Paris and Moscow. publity acts as an office real estate asset manager and investor, which are the major pillars of the company. Another business field is the NPL-Portfolio. The focus is primarily on office real estate with development potential in German metropolitan regions. In summary, publity follows the manage-to-core approach and has been implementing it very successfully for many years.

Source: Company Data, SRC Research

SWOT Analysis

Strengths

- publity is driven by a very experienced management, as the founder, CEO and largest shareholder Thomas Olek was awarded for his performance as an office real estate investor last year.
- High-quality network, which is crucial for publity´s business model.
- A great added value results from the high-quality database with more than 9,500 properties by linking consistent data with innovative technology. This enables ongoing investment activity and very good access to attractive properties.
- The excellent track record is proven by more than 1,150 Transactions, which also proved the efficiency of the standardized process and the implementation security when handling the deals. This results in a high level of trustworthiness in the market.
- Asset management contracts are concluded with a term of 5 years including the Evergreen option. The current average contract duration is 3.6 years
- By positioning itself in two main and one additional business area, publity has a stable business model. The concentration risk is reduced by a broad investor environment.

Weaknesses

- Like the entire industry, the company's success depends to a certain extent on the economic trend
- The valuation of the company is based exclusively on the DCF valuation, as a NAV observation in the context of current developments has a low significance.
- The publity share has so far been listed in the lower transparency level Open Market / Scale in Frankfurt and on XETRA.

Opportunities

- As a flexible investor, publity has a significant advantage when it comes to buying decisions and speed of implementation compared to players with rigid purchase criteria
- The anchoring of low interest rate policies by leading global central banks confirms a high probability that interest rates, as the most important valuation factor in the real estate industry, will remain advantageously low.
- The very good liquidity situation favors real estate as a stable asset class given the volatility of other asset classes, such as equities. This constellation should continue to drive demand in the real estate sector.
- Further growth in assets under management and expansion of the investor base are planned.

Threats

- Fierce competition in real estate asset management and investment poses certain obstacles when it comes to accessing promising properties.
- Project-dependent sales naturally depend on the acquisition of asset management mandates.
- The market risk affects all companies in the real estate industry and should therefore be seen as a general one. In connection with the general trend towards the home office and the current recession due to the corona virus, we see general risks for the real estate sector and the office segment.

Deals & Achievements 2020

Strong activity & completions

After the dynamic development was always emphasized, this strategy could also be implemented in 2020. An overview of the deals and achievements for 2Q and 3Q 2020 can be found below.

April 2020:

- publity successfully completes purchase of the Centurion office tower in Frankfurt a.M.

May 2020:

- publity secures full letting in Essen property - new lease with university hospital
- publity closes sales success for office property at Dortmund Airport

July 2020:

- publity sells property near Munich as an asset manager

August 2020:

- publity completes renovation of 25,500 sqm of corporate real estate in Essen - police headquarters move in

September 2020:

- Sale of an office property in a central location in Hamburg
- publity sells 100,000 square meters of property in Essen-Bredeney to SIGNA

Financing measures since May 2020

Broadening financial base on debt & equity side

The business dynamism was already underpinned in 2019 by important financing agreements with major financing partners such as Meritz (Euro 141m) and Helaba (over Euro 200m), whixh has been finalised in January 2020. The following is an overview of the financing activities for the current year 2020:

January 2020:

- Convertible bonds with a nominal volume of Euro 4.1m have already been con verted
- publity receives another tranche of Euro 56m from financing partner Meritz, who has meanwhile invested Euro 141m in publity.
- publity concludes financing with Helaba of over Euro 200m for property purchases

April 2020:

- Thomas Olek has acquired more than 120.000 shares since the start of the Covid 19 Pandemic with a total volume of about Euro 4m, showcasing the trust he places in the company despite the turbulent times.

May 2020:

- publity to issue corporate bond as announced in January, while the issue was post poned in March due to the Corona pandemic to autumn 2020.
- Thomas Olek continued acquiring further significant amounts of publity shares.
- The majority shareholder of publity AG publishes a voluntary public purchase offer to the holders of the convertible bond 2015/2020.

June 2020:

New long-term equity investor with lock-up 12-24 months

- publity raises Euro 50m by issuing the first tranche of the 5.5% corporate bond.
- publity expands its investor base and wins new investors for 49% of the shares, for which a lock-up period of between 12 and 24 months has been agreed. The free float is now 62% and Thomas Olek's stake is further reduced to 38%.

August 2020:

AuM to grow to Euro 10bn by 2023

- publity AG plans to grow its assets under management to Euro 10bn by 2023.
- publity raises additional debt capital of Euro 25m by increasing corporate bond (2020/2025) volume to Euro 75m.

September 2020:

Corporate Bond: Euro 100m already raised

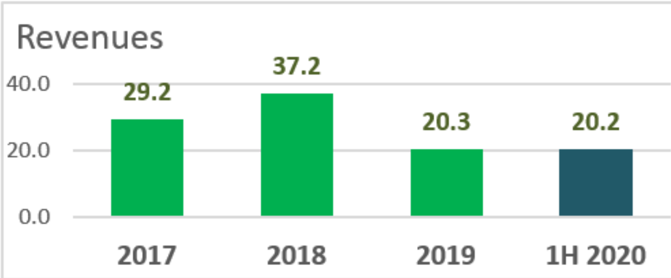
- additional debt capital of Euro 25m raised. Corporate Bond (2020/2025) volume increased to Euro 100m.

Company figures: growth path continued

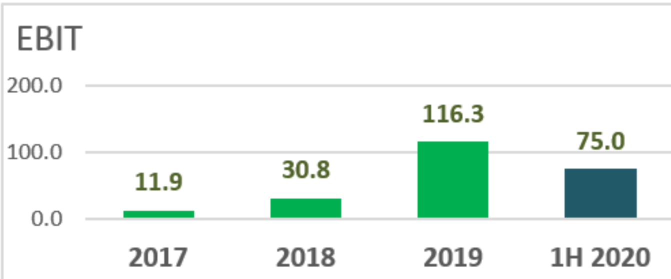
EBIT already tripled in 1H

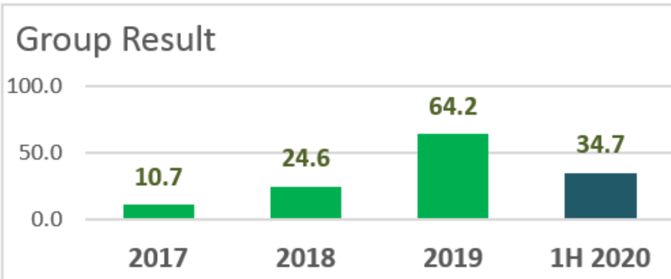
The first half of 2020 was also successfully contested despite Corona. The high frequency already shown in all areas from property purchases to project completions and rental successes to property sales are reflected in the company figures. Consolidated earnings after taxes in 1H 2020 increased by more than 50% from Euro 21.7m (1H 2019) to Euro 34.7m. In the course of this, the EBIT almost tripled over the same period from Euro 26.9m in 1H 2019 to Euro 74.9m most recently. The significance of the development described is illustrated in the following figures of the company figures since 2017.

Figures in million Euros



Solid fundamental development





Source: Company Data

Fully on track

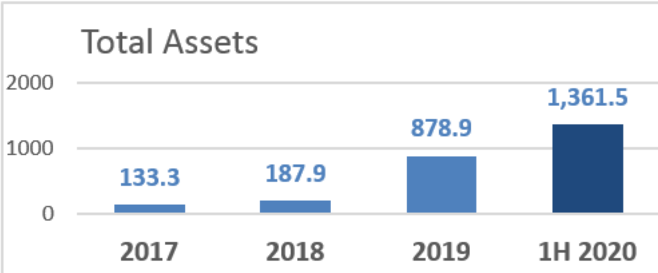
The above illustration shows that sales for the first half of the year are already the same as for 2019 as a whole. Furthermore, there is a high probability of surpassing the higher sales of 2018 in 2020. In addition, EBIT and the consolidated result show a strong development in 1H 2020 compared to the last three years. This suggests that at least the forecasts for 2020 can be achieved.

Financing base and total assets

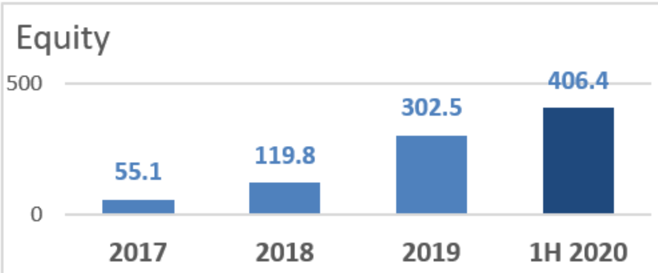
Strenthened financial base

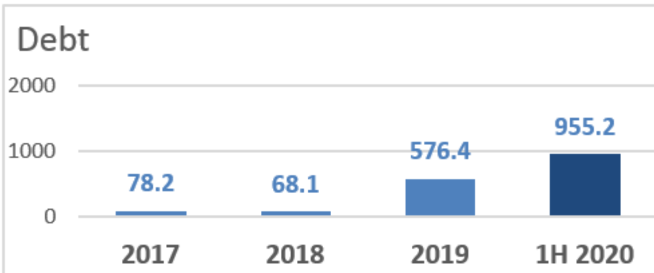
Similar to the company results, the financing and asset base is developing very strongly as planned. While total assets increased from Euro 0,88bn in 1H 2019 to Euro 1.36bn, debt rose from Euro 576m to Euro 955m. Equity grew solidly from Euro 303m to Euro 406m in 1H 2020.

Figures in million Euros



Asset growth underpinned by very good access to capital





Source: Company reports

publity delivers on forecasts

The above figures substantiate the very high goals with hard numbers and show that publity can deliver what it promises. The broadening of the investor base by increasing the free float and the expansion of debt capital instruments by issuing corporate bonds give the company the flexibility and scope for action it needs for the future.

We stick to our forecasts and maintain our Buy rating; Upside potential almost 40%

publity is still on track and we therefore remain optimistic about the achievement of its goals. The company aims to increase its assets under management from currently over Euro 5.5bn to over Euro 10bn by 2023. We consider this goal realistic and remain unchanged with our May 2020 forecasts. We therefore still consider our last price target of Euro 50,00 to be appropriate and remain unchanged on Buy. This corresponds to a strong price potential of currently 39%.

publity AG 31/12 IFRS ('000)	2018	2019	2020e	2021e	2022e	CAGR '19 - '22e
Revenues	37,217	20,323	102,225	178,669	192,471	111.6%
Cost of sales	-6,793	-10,603	-32,147	-56,281	-59,089	
Gross profit	**30,424**	**9,720**	**70,078**	**122,388**	**133,382**	**139.4%**
Other operating income	1,294	6,748	6,578	7,224	7,039	
Impairment losses on receivables	-143	0	0	0	0	
Personnel expenses	-2,024	-2,547	-2,977	-3,247	-3,655	
Other operating expenses	-7,675	-19,852	-18,547	-20,473	-21,331	
Result of remeasurement of investment properties	8,940	122,230	230,147	322,585	332,147	
Operating Profit (EBIT)	**30,816**	**116,299**	**285,279**	**428,477**	**447,582**	**56.7%**
Finance income	8,454	6,127	1,258	2,476	1,347	
Finance costs	-2,851	-14,360	-72,584	-105,331	-123,832	
Impairment of non-current financial assets	-2,962	-27,703	-3,475	-2,876	-4,788	
Share of results of associates	-16	-587	-974	-1,044	-1,479	
Pre-tax profit (EBT)	**33,441**	**79,776**	**209,504**	**321,702**	**318,830**	**58.7%**
Income tax expense	-8,826	-15,616	-48,186	-73,992	-73,331	
Net profit	**24,615**	**64,161**	**161,318**	**247,711**	**245,499**	**56.4%**
Minorities	85	5,338	25,314	32,174	36,471	
Net profit after minorities	24,530	58,822	136,004	215,537	209,028	
Number of shares ('000)	7,516	11,202	14,874	14,874	14,874	
Earnings per share (Euro)	**3.26**	**5.25**	**9.14**	**14.49**	**14.05**	
Dividend per share (Euro)	**1.50**	**0.00**	**3.00**	**4.00**	**4.00**	
Shareholders' Equity	**119,797**	**302,476**	**419,171**	**607,383**	**793,385**	
Balance Sheet sum	**187,935**	**878,920**	**2,845,236**	**4,478,963**	**3,784,256**	
Equity Ratio	**63.7%**	**34.4%**	**14.7%**	**13.6%**	**21.0%**	

SRC Research
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Rating chronicle:

Company	Date	Rating	former share price	former target price
publity AG	25 May 2020	Buy	35.90 €	50.00 €
publity AG	18 March 2020	Buy	30.40 €	42.00 €

Please note:
The share price mentioned in this report is from 2 October 2020. publity AG mandated SRC Research for covering the share.