

Branicks Group AG

Buy (unchanged) Target: Euro 7.00 (unchanged)

27 | August | 2024



Price (Euro) **2,23**
52 weeks range 4.45 / 0.86

Key Data

ISIN DE000A1X3XX4
Bloomberg BRNK:GR
Reporting standard IFRS
Market Cap (Euro million) 186
Number of shares (million) 83,6
Free Float 51,7%
Free Float Market Cap (Euro million) 96
CAGR EBIT ('23 -'26e) 253,5%

Multiples	2023	2024e	2025e	2026e
Market Cap / Total revenues	1,0	1,1	1,1	1,1
PE-Ratio	-2,8	-2,9	-26,8	13,3
Dividend Yield	0,0%	0,0%	0,0%	0,0%

Key Data per share (Euro)	2023	2024e	2025e	2026e
Earnings per share (EPS)	-0,79	-0,76	-0,08	0,17
FFO per share	0,62	0,52	0,66	0,90
Dividend per share (DPS)	0,00	0,00	0,00	0,00

Financial Data (Euro '000)	2023	2024e	2025e	2026e
Gross rental income	188.273	165.993	168.492	172.833
Net rental income	164.634	143.922	145.293	148.814
Administrative expenses	-27.210	-26.132	-28.100	-30.188
Personnel expenses	-40.101	-39.227	-40.341	-42.375
Real estate management fees	50.853	42.562	61.239	84.299
Profit on disposal of investment property	8.184	5.399	12.418	11.014
EBIT	2.035	24.757	70.674	89.864
Net financial result	-92.816	-104.011	-91.358	-81.897
EBT	-84.333	-73.577	-11.135	20.388
Taxation	-34.577	-36.607	-38.637	-40.667
Net profit after minorities	-65.960	-63.706	-6.963	14.054
FFO	51.900	43.400	55.300	75.400

Main Shareholders

Deutsche Immobilien Chancen-Gruppe 28,2%
Yannick Patrick Heller 10,1%
RAG-Stiftung 10,0%

Financial calendar

9M 2024 report 7 November 2024

Analyst

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Good half year picture in challenging times with a massive debt reduction and a solid operating performance combined with cost discipline – target already lifted last week to Euro 7.00

Today Branicks released the half year report. We already lifted our target price from Euro 5.00 to Euro 7.00, after the firm announced last week on 19 August the significant reduction of the VIB Bridge loan to now only Euro 40m, which stood at Euro 200m at the end of last year. The firm also already announced the FFO I of Euro 19.4m, which is a high number in our view, with the given asset sales done in the second half of last year and the first half of 2024, which stood for a rental income of Euro 7.9m. The 1H 2023 FFO I after minorities was at Euro 22.4m. **Branicks already maintained last week the full year 2024 FFO guidance in a range of Euro 40m to Euro 55m, which is realistic in our view. With the half year report Branicks unveiled a good rental performance with a hike of 2.0% in the like-for-like rents of the total portfolio that adds to the strong asset sales transactions in a still difficult market, at least with regards to office transactions.** The like-for-like growth in the Institutional Business of 2.5% was even above the +0.9% in the own Commercial Portfolio. The letting renewals stood at high 161k sqm in 1H 2024, stable compared to 169k sqm last year. The new lettings fell down almost 80%, from 89k sqm to 20k sqm, due to a persistent reluctance of office tenants to commit for a long-term new rental contract in this overall shaky economy with little or almost no growth. From the transactions side, the first six months were very successful with 15 properties sold for Euro 361m, even though some of these deals were notarized a bit after 30 June in 3Q. The relatively good FFO picture was possible with solid recurring income streams from the rentals in the own portfolio, Euro 77m after Euro 85m despite the sales, and from management fees in third party business, Euro 21m after Euro 22m, despite a lower level of AuM, down from Euro 9.6bn at year-end 2023 to now Euro 8.9bn. Keep in mind, that no transaction-related income was included here, but will gradually come back the next quarters in our assumption. Furthermore the “Performance 2024” action plan bore fruit with a reduction of operating expenses, as for instance personnel expenses were reduced from Euro 22m to now only 18m, by 17%, mainly due to a lower headcount in asset and property management.

With regards to the balance sheet, the situation remains stable with an adjusted LTV of 58.8%, after 57.6% at year-end 2023. That should be the peak and we expect this number to clearly improve in the second half of 2024 with the repayment of the remaining Euro 40m bridge loan, probably already until the end of 3Q. With regards to bond covenants, all ratios were in the required range, as the ICR for instance was at 2.0x and only 1.8x is needed. The ongoing financial consolidation helps to quickly reduce financing expenses and to accelerate future profits, as we expect Branicks to return to black numbers in 2026. The next milestone in the debt maturity is the Euro 293m promissory notes to be paid or prolonged next year, mostly in June 2025. As we stated in our last report, we see an ongoing improvement that helps for a better risk return profile. EPRA NTA slightly down -6%, from Euro 11.89 to Euro 11.21, but no reason to change our new Euro 7.00 target price.

Branicks Group AG

Industry:	Real Estate	Management Board of Branicks
Sub-segment:	Commercial property investor	Sonja Wärntges (CEO)
	Own book / Institutional Business / Managed Accounts (transaction, asset and property management)	Johannes von Mutius (CIO)
		Torsten Doyen (CIBO)
		Christian Fritzsche (COO)
Region:	Germany	Supervisory Board of Branicks:
Headquarter:	Frankfurt	Dr. Angela Geerling
Foundation	1998	Michael Zahn
Employees:	305	Prof. Dr. Gerhard Schmidt
		Eberhard Vetter
IR Contact:		Rene Zahnd
Dipl.-Bw. Jasmin Dentz, CIRO		Jürgen Overath
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Branicks (formerly DIC Asset) is a strong commercial properties player in the German market with two strong and in general more or less equally weighted pillars or businesses, which help for a very complementary income and investment structure.

In the Commercial Portfolio Branicks does on balance sheet investment for their own books, in particular office and logistics properties that offer a stable cash income as well as some value add properties which need more attention to reduce vacancy and increase the intrinsic cash flow in mid-term, in particular by repositioning or revitalization of some assets. This strategy is complemented by an intelligent cycle management to sell some properties at the right time for portfolio optimization and generating additional trading profits. The commercial portfolio has a size of about Euro 3.65bn at present.

In the second pillar, the Institutional Business, the company launches diversified real estate funds for many years, as the DIC Office Balance I was initiated in 2010 and DIC Office Balance II in 2014 and DIC Office Balance III in 2015, all with targeted AuM between Euro 300m and Euro 450m. Branicks also initiated funds outside the office topic, for instance with the DIC Retail Balance I fund, which came in September 2017 with a size of about Euro 250m or the new RLI-GEG Logistics & Light Industrial III fund with a volume of Euro 400m. The institutional business offers a great range of fees for set-up, transactions, asset and property management services for the funds, club deals and individual mandates. In addition to a broad income stream from servicing fees there are lucrative equity returns from the co-investment stakes. The assets under management in the Institutional Business steeply increased by almost 50% in 2019, from Euro 3.9bn to Euro 5.7bn, to Euro 7.6bn in 2020 and again steeply to Euro almost Euro 9.3bn in 2021 and Euro 10.25bn in 2022. At the end of 2023, the AuM in the segment amounted to Euro 9.6bn. All activities in the field of fund business (third party mandates) have been bundled under the GEG roof. Both pillars, the Commercial Portfolio and the Institutional Business, are serviced from the group's own asset and property management platform, with branches in Frankfurt, Mannheim, Dusseldorf, Cologne, Hamburg, Munich, Berlin, Stuttgart and Neuburg. The institutional business offers a lucrative income stream of management fees as well as transaction-related fees and performance fees. As of April 2024, the firm announced a stronger strategic focus on ESG and Renewables and plans to launch its first Renewable Fund with a volume of Euro 300m in the first half of 2024.

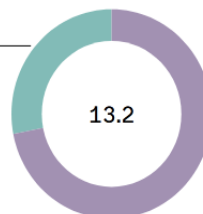
The FFO I result of 2023 stood at a level of Euro 52m and was expectedly more than halved from Euro 114m in 2022 due to the very sluggish market conditions and the respective much lower transaction volume in the institutional business segment as well as the significantly higher financing expenses. For 2024 Branicks guides a range of Euro 40m to Euro 55m for the FFO I result. After 1Q 2024 the FFO I stood at Euro 9.0m which is a good start for the full year target. This FFO result was realized with rental income from commercial portfolio and management & property fees from Institutional Business only, as there were no transaction related fees, so far.

Assets under management

In EUR billion

Commercial Portfolio 3.6
(proprietary portfolio)

- 168 properties
- Directly held portfolio
- Recurring rental income from Core/Core Plus and Value-add assets
- Medium to long-term investment horizon
- Sales at appropriate time



9.6 Institutional Business
(third-party business)

- 183 properties
- Investment vehicles for institutional investors
- Income from structuring and managing these vehicles
- Core real estate in major cities and economically strong regions

Source: Company Data, SRC Research

Branicks Group AG 31/12 IFRS ('000)	2021	2022	2023	2024e	2025e	2026e	CAGR '23 - '26e
Gross rental income	108.390	175.956	188.273	165.993	168.492	172.833	-2,8%
Ground rents	-523	-339	-169	-224	-326	-448	
Service charge income on principal basis	23.211	31.269	32.886	29.384	30.485	31.221	
Service charge expenses on principal basis	-26.415	-36.572	-38.997	-34.957	-36.538	-37.293	
Other property-related expenses	-13.447	-17.774	-17.359	-16.274	-16.820	-17.499	
Net rental income	91.216	152.540	164.634	143.922	145.293	148.814	-3,3%
Administrative expenses	-21.518	-37.863	-27.210	-26.132	-28.100	-30.188	
Personnel expenses	-38.096	-42.581	-40.101	-39.227	-40.341	-42.375	
Depreciation and amortization	-42.986	-73.883	-156.024	-102.374	-80.116	-82.129	
Real estate management fees	101.225	88.375	50.853	42.562	61.239	84.299	18,4%
Other operating income	3.815	5.699	2.495	3.180	3.725	4.331	
Other operating expenses	-1.802	-3.409	-796	-2.573	-3.444	-3.902	
Net proceeds from disposal of investment property	139.337	51.494	558.611	284.738	378.239	324.839	
Carrying amount of investment property disposed	-115.572	-38.797	-550.427	-279.339	-365.821	-313.825	
Profit on disposal of investment property	23.765	12.697	8.184	5.399	12.418	11.014	
Net operating profit before financing activities (EBIT)	115.619	101.575	2.035	24.757	70.674	89.864	253,5%
Share of the profit or loss of associates	6.524	18.918	6.448	5.677	9.549	12.421	
Interest income	9.550	10.635	17.878	14.353	9.883	5.425	
Interest expenses	-59.257	-71.217	-110.694	-118.364	-101.241	-87.322	
Profit/loss before tax (EBT)	72.436	59.911	-84.333	-73.577	-11.135	20.388	
Tax	-14.051	-17.053	13.634	4.539	2.784	-5.097	
Net profit	58.385	42.858	-70.699	-69.038	-8.351	15.291	
Minorities	590	11.834	-4.739	-5.332	-1.388	1.237	
Net profit after minorities	57.795	31.024	-65.960	-63.706	-6.963	14.054	
FFO	107,2	114,2	51,9	43,4	55,3	75,4	13,3%
Number of shares ('000)	81.504	82.689	83.427	83.566	83.566	83.566	
Earnings per share	0,71	0,38	-0,79	-0,76	-0,08	0,17	
FFO per share	1,32	1,38	0,62	0,52	0,66	0,90	
Dividend per share	0,75	0,75	0,00	0,00	0,00	0,00	
Shareholders' Equity	1.133.969	1.664.101	1.527.139	1.463.433	1.456.470	1.470.524	-1,3%
Equity Ratio	32,5%	32,1%	31,5%	30,8%	31,3%	31,4%	

SRC Research

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Rating Chronicle

Company	Date	Rating	former share price	former target
Branicks Group AG	19.08.2024	Buy	1,83 €	7,00 €
Branicks Group AG	21.05.2024	Buy	1,98 €	5,00 €
Branicks Group AG	02.05.2024	Buy	1,62 €	5,00 €
Branicks Group AG	04.04.2024	Buy	1,35 €	5,00 €
Branicks Group AG	06.03.2024	Buy	1,24 €	3,00 €
Branicks Group AG	08.11.2023	Buy	4,10 €	9,00 €
DIC Asset AG	04.08.2023	Buy	4,21 €	11,00 €
DIC Asset AG	10.07.2023	Buy	5,31 €	11,00 €
DIC Asset AG	11.05.2023	Buy	6,70 €	14,00 €

Please note: The share price mentioned in this report is from 26 August 2024. Branicks Group AG mandated SRC Research for covering the share.

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