

11 November 2019

**Accentro Real Estate AG**

<b>Rating</b>	<b>Buy</b>
<b>Share price (EUR)</b>	<b>7.50</b>
<b>Target price (EUR)</b>	<b>10.50</b>
Bloomberg Sector	A4Y GY Real Estate

**Share data**

Shares out (m)	32.4
Daily volume shs (m)	0.0
Free float (%)	11.90
Market cap (EUR m)	230
EV (EUR m)	474
DPS (EUR)	0.16
Dividend yield (%)	1.7
Payout ratio (%)	32.8

**Performance**

ytd (%)	-25.1
12 months (%)	-29.0
12 months rel. (%)	-35.0
Index	SDAX

**Share price performance**



Source: Bloomberg

**Next triggers**

26 march FY 19 report  
14 may Q1/20 report

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# Strong Q3/19 - Profits picking up

Accentro presented the expected stronger results on Q3/19. Beside the growing privatization business a valuation gain of EUR 11m contributed favorably to the result. Accentro changed the business concept towards a higher proportion of project development in order to maximize returns from the property portfolio. As expected the FY 19 operational performance will be back end loaded. We expect a strong final Q4/19 quarter. The valuation of Accentro remains cheap with a strong upside of close to 50% to the DCF based fair value of EUR 10.50 per share.

**Privatization business picking up – High margins despite Berlin market uncertainties**

Accentro unveiled its figures for Q3/19. Total group revenues amounted to EUR 38.8m, +0.3% yoy. The privatization business of Accentro has picked up in Q3/19 as expected. Total Q3/19 group sales are +96.2% vs. Q2/19 and have therefore nearly doubled. Accentro showed an ongoing favorable margin development in Q3/19. The group gross margin amounted to 28.2% (+493BP yoy.) This development confirms that the Accentro privatization projects continue to perform well and take advantage of the tight residential markets mainly in the Berlin region with still rising selling prices. Q3/19 EBIT came in on a surprising strong EUR 19.4m (+193% yoy.) This is largely related to a change in the business concept. A major project has been shifted from the short term privatization portfolio into long term assets (investment properties). The strategic decision has been taken in order to lift hidden reserves of the project. This project might be realized in an extended time frame and include a larger proportion of project development. Since the asset has been bought with cheap property prices it had to be revalued. This explains the valuation gain of EUR 11.4m in Q3/19. Due to minority participation and deferred taxes the net effect on this accounting issue is much less pronounced.

**Refiled privatization portfolio shifted to regions outside of the core Berlin market**

In line with rising sales Accentro continued to refill the privatization portfolio. ACC was able to acquire and invest EUR 136m in Q1-Q3/19 into new projects. This includes mainly projects outside the core Berlin region in order to diversify activities into areas with continues growth. In total, the privatization portfolio increased to EUR 363m (+5.0% ytd.) despite the reclassification of EUR 34m into investment properties. As the portfolio is book at costs it includes more than EUR 100m hidden reserves (delta to market pricing).

Key figures		2017	2018	2019e	2020e	2021e
Sales	EUR m	147	206	160	183	200
EBITDA	EUR m	37	33	36	41	47
EBIT	EUR m	36	33	35	40	46
EPS	EUR	0.63	0.56	0.52	0.62	0.77
Sales growth	%	17.8	39.5	-22.2	14.4	9.3
EBIT growth	%	7.3	-9.8	7.1	14.4	14.3
EPS growth	%	-0.9	-10.4	-7.5	19.8	23.6
EBITDA margin	%	24.8	16.2	22.3	22.3	23.3
EBIT margin	%	24.7	16.0	22.0	22.0	23.0
Net margin	%	13.8	8.8	10.5	11.0	12.5
EV/Sales	ratio	2.39	2.16	2.96	2.55	2.27
EV/EBITDA	ratio	9.6	13.4	13.3	11.4	9.8
EV/EBIT	ratio	9.7	13.5	13.5	11.6	9.9
P/E	ratio	14.1	17.1	13.7	11.4	9.2
P/BV	ratio	1.9	1.6	1.1	1.0	0.9
Dividend yield	%	1.9	1.7	2.4	2.2	2.7

Source: Bloomberg, Company data, Quirin Privatbank estimates

### Guidance for FY19 confirmed

Despite the challenging proposition of realizing sales of more than EUR 86.6m in Q4/19 in order to reach our revenue expectations of EUR 160m for FY19e, we expect Accentro to be able to do so. This confidence includes the realization of a global sales of a larger privatization project which might be currently under negotiation and might account for up to 50% of Q4/19 sales. Our current full FY 19 EBIT forecast of around EUR 36m does currently not include the valuation gain of EUR 11.4m gained in Q4/19. We therefore expect the total EBIT level to cross the EUR 40 m mark by year end 19.

### Growth beyond 2019?

Given the ongoing tightness of the German residential markets in general and the focus markets in larger German cities in specific, we stick to the view that Accentro will continue its growth path. Even the political discussions of rent caps should not destroy the business success of the company. This is backed by the strong and selected privatization portfolio but also by the fact that the number of new build housing in residential is still lacking behind demand patterns.

The comfortable LTC of 53.8% and a low LTV of 42.8% still offers a large upside for further new investments. The Accentro management targets inventory levels to be more than doubled to around EUR 1bn. Limiting factor for the speed of growth of Accentro remains fresh investment capital on both the equity and debt side in order to keep financial covenants (e.g. LTV no higher than 60%).

### Accentro Quarterly Results:

EUR m	Q1/19	yoy %	Q2/19	yoy %	H1/19	yoy %	Q3/19e	yoy %	Q1-3/19	yoy %	FY19e	yoy %
<b>Total revenues</b>	<b>14,8</b>	<b>-51,9</b>	<b>19,8</b>	<b>-70,6</b>	<b>34,5</b>	<b>-64,7</b>	<b>38,8</b>	<b>0,3</b>	<b>73,4</b>	<b>-46,3</b>	<b>160,0</b>	<b>-22,2</b>
Gross profit	4,6	-56,7	7,3	-15,8	11,8	-38,3	10,9	21,3	22,7	-19,2	32,3	-45,9
Gross profit margin %	30,8		36,7		34,2		28,2		31,0		20,2	
<b>EBIT</b>	<b>2,0</b>	<b>-76,0</b>	<b>4,6</b>	<b>-23,1</b>	<b>6,6</b>	<b>-54,1</b>	<b>19,4</b>	<b>193,0</b>	<b>26,0</b>	<b>23,8</b>	<b>35,2</b>	<b>7,1</b>
EBIT margin %	13,7		23,1		19,1		49,9		35,4		22,0	
Financial result	-1,4	-49,2	-1,7	-43,1	-3,1	-45,9	-3,7		-6,8	38,0	-12,3	38,0
<b>EBT</b>	<b>0,7</b>	<b>-88,5</b>	<b>2,9</b>	<b>-2,6</b>	<b>3,5</b>	<b>-59,4</b>	<b>15,7</b>	<b>253,6</b>	<b>19,2</b>	<b>46,6</b>	<b>22,9</b>	<b>-4,3</b>
EBT margin %	4,5		14,4		10,2		40,4		26,2		14,3	
Taxes	0,5	-74,9	0,1	-89,1	0,6	-80,4	5,5		6,0	15,3	6,5	15,3
Tax rate %	68,4		4,3		16,3		34,8		31,4			
<b>EAT</b>	<b>0,2</b>	<b>-94,7</b>	<b>2,7</b>	<b>51,0</b>	<b>2,9</b>	<b>-48,8</b>	<b>10,2</b>	<b>259,1</b>	<b>13,2</b>	<b>51,8</b>	<b>16,4</b>	<b>-10,4</b>
Number of shares m (fully diluted)	32,4		32,4		32,4		32,4		32,4		32,4	
<b>EPS in EUR</b>	<b>0,01</b>		<b>0,08</b>		<b>0,09</b>		<b>0,32</b>		<b>0,41</b>		<b>0,51</b>	

Source: Accentro Real Estate AG, Quirin Privatbank estimates

### Stock price performance -

Accentro stock price performance was disappointing in the recent months. The year-to-date performance was down by -21.4%. Even worse is the relative performance vs. SDAX of more than 46%.

We believe that the share price performance of recent month is largely driven by external factors like the negative sentiment towards the political discussion on rent restrictions of the Berlin residential market.

Since Accentro is not a residential property owner but rather runs a residential privatization business concept with some project development parts, we assume that the company depends on other business metrics. Due to rental income only making up a small share of Accentro's revenue (4.3% in FY18), we do not see this as a big threat to the company's performance. We also view it as a positive factor that new investments into the privatization portfolio are to an increasing extend are driven by other metro regions outside the core Berlin market.

A second topic which might have caused the 2019 underperformance might be the change of ownership discussion. Market participants might fear a stock overhang due to the intention that Adler real estate might sell its remaining stake of 4.8% into the market. We view such an opportunity as unrealistic as any transaction might only happen on a realistic pricing closer to the fair value of the company of at least EUR 10.50. It might also not be executed below Adler book values of around EUR 7.80 per share.

*Organic growth through established and growing branches*

**Valuation: Sharp performance upside to fair DCF based equity value**

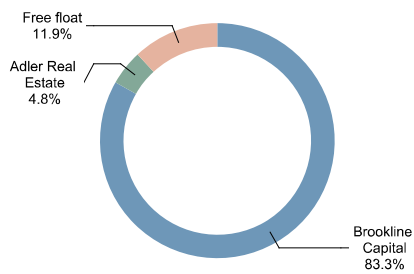
We continue to value Accentro based on a DCF model. This includes the long-term perspective of the company. Our DCF model forecasts rising revenues from 2019 onwards. We foresee organic growth not only in the core business of privatization, but also in the growing services branch. In this branch, Accentro distributes properties belonging to other real estate companies, receiving a fee in return. Our calculation includes also the realization of hidden reserves of more than EUR 100 m in the privatization portfolio. Given the ongoing high operational margins of more than 22% even in the long run and the rising free cash flow from FY20e onwards we stick to our fair equity value of around EUR 342m or EUR 10.55 per share.

**Recommendation for Accentro therefore remains on BUY and we confirm our Target Price of EUR 10.50 per share.**

**Company description**

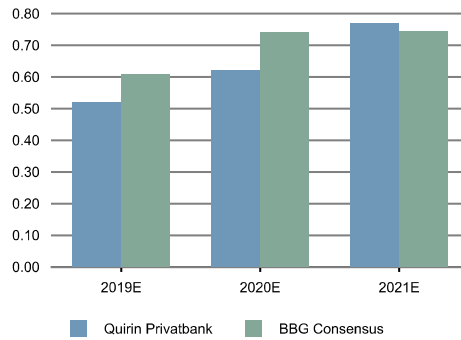
Accentro Real Estate AG operates as a listed residential property company. The Company's core business is the socially responsible privatization of residential properties across Germany. Accentro also purchases housing stocks, which afterwards are privatized via proprietary trading.

**Shareholder structure**



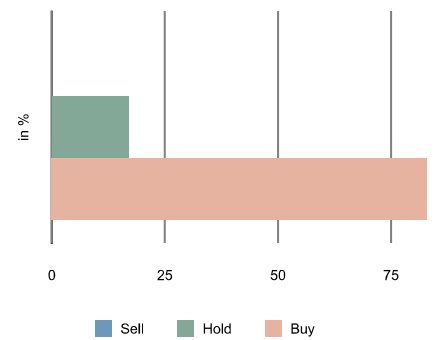
Source: Company data

**EPS: Quirin Privatbank vs. consensus**



Source: Quirin Privatbank Research, Bloomberg

**Recommendation Overview**



Source: Bloomberg

**Company guidance 2019**

Modest increase of revenues based on adjusted 2018 Sales of 163.3m and an EBIT of 36m or more.

## Profit &amp; loss statement

Profit & loss statement (EUR m)	2017	YOY	2018	YOY	2019e	YOY	2020e	YOY	2021e	YOY
Sales	147.3	17.8 %	205.6	39.5 %	160.0	-22.2 %	183.0	14.4 %	200.0	9.3 %
Unfinished Goods	0.0		0.0		0.0		0.0		0.0	
Other own work capitalized	0.0		0.0		0.0		0.0		0.0	
Other operating earnings	3.3		1.7		-3.2		-3.6		-4.8	
Cost of goods	106.3		164.1		127.7		146.1		159.6	
Gross profit	44.3		43.2		29.1		33.3		35.6	
Personnel expenses	3.3		4.6		3.6		4.1		4.5	
Depreciation	0.1		0.3		0.5		0.5		0.5	
Other operating expenses	4.5		5.3		-10.2		-11.5		-15.4	
EBITDA	36.5	7.3 %	33.2	-9.1 %	35.7	7.5 %	40.8	14.2 %	46.5	14.1 %
EBITDA margin (%)	24.79		16.15		22.31		22.27		23.25	
EBIT	36.4	7.3 %	32.9	-9.8 %	35.2	7.1 %	40.3	14.4 %	46.0	14.3 %
EBIT margin (%)	24.72		15.98		22.00		22.00		23.00	
Net interest	-8.8		-8.9		-11.9		-12.3		-11.4	
Income from Participations	0.0		0.0		0.0		0.0		0.0	
Net financial result	-8.8		-8.9		-11.8		-12.3		-11.4	
Exceptional items	0.0		0.0		0.0		0.0		0.0	
Pretax profit	27.6	-1.6 %	24.0	-13.2 %	23.4	-2.5 %	28.0	19.8 %	34.6	23.6 %
Pretax margin (%)	18.76		11.66		14.61		15.30		17.30	
Taxes	7.3		5.7		6.5		7.8		9.7	
Tax rate (%)	26.47		23.67		28.00		28.00		28.00	
Earnings after taxes	20.3		18.3		16.8		20.2		24.9	
Minorities	0.0		0.1		0.0		0.0		0.0	
Group attributable income	20.3	-0.9 %	18.2	-10.4 %	16.8	-7.5 %	20.2	19.8 %	24.9	23.6 %
No. of shares (m)	32.4		32.4		32.4		32.4		32.4	
Earnings per share (EUR)	0.63	-0.9 %	0.56	-10.4 %	0.52	-7.5 %	0.62	19.8 %	0.77	23.6 %

## Balance sheet

Balance sheet (EUR m)	2017	YOY	2018	YOY	2019e	YOY	2020e	YOY	2021e	YOY
<b>Assets</b>										
Cash and cash equivalents	7.9		15.5		4.8		12.4		21.3	
Accounts receivables	1.2		18.6		14.5		16.6		18.1	
Inventories	304.0		345.2		380.0		390.0		400.0	
Other current assets	11.6		12.7		12.7		12.7		12.7	
Tax claims	1.0		1.1		1.1		1.1		1.1	
<b>Total current assets</b>	<b>325.6</b>	<b>25.3 %</b>	<b>393.1</b>	<b>20.7 %</b>	<b>413.1</b>	<b>5.1 %</b>	<b>432.8</b>	<b>4.8 %</b>	<b>453.2</b>	<b>4.7 %</b>
Fixed assets	0.2		23.7		23.6		23.6		23.6	
Goodwill	17.8		17.8		17.8		17.8		17.8	
Other intangible assets	0.0		0.0		0.0		0.0		0.0	
Financial assets	0.0		0.0		0.0		0.0		0.0	
Deferred taxes	0.2		0.7		0.7		0.7		0.7	
Other fixed assets	4.0		38.9		38.9		38.9		38.9	
<b>Total fixed assets</b>	<b>22.2</b>	<b>17.4 %</b>	<b>81.1</b>	<b>265.7 %</b>	<b>81.0</b>	<b>-0.1 %</b>	<b>81.0</b>	<b>0.0 %</b>	<b>81.0</b>	<b>0.0 %</b>
<b>Total assets</b>	<b>347.8</b>	<b>24.7 %</b>	<b>474.2</b>	<b>36.3 %</b>	<b>494.1</b>	<b>4.2 %</b>	<b>513.8</b>	<b>4.0 %</b>	<b>534.2</b>	<b>4.0 %</b>
<b>Equity &amp; Liabilities</b>										
Subscribed capital	24.9		32.4		32.4		32.4		32.4	
Reserves & other	53.5		78.4		78.4		78.4		78.4	
Revenue reserves	73.6		86.3		97.6		112.7		131.4	
Accumulated other comprehensive	0.0		0.0		0.3		-0.2		1.0	
<b>Shareholder's equity</b>	<b>153.7</b>	<b>12.3 %</b>	<b>199.1</b>	<b>29.5 %</b>	<b>210.7</b>	<b>5.8 %</b>	<b>225.4</b>	<b>6.9 %</b>	<b>245.3</b>	<b>8.8 %</b>
Minorities	1.7		2.0		2.0		2.0		2.0	
<b>Shareholder's equity incl. minorities</b>	<b>153.7</b>	<b>12.3 %</b>	<b>199.1</b>	<b>29.5 %</b>	<b>210.7</b>	<b>5.8 %</b>	<b>225.4</b>	<b>6.9 %</b>	<b>245.3</b>	<b>8.8 %</b>
<b>Long-term liabilities</b>										
Pension provisions	0.0		0.0		0.0		0.0		0.0	
Financial liabilities	42.4		76.8		76.8		76.8		76.8	
Tax liabilities	1.0		1.1		0.8		1.0		1.1	
Other liabilities	0.0		0.0		0.0		0.0		0.0	
<b>Total long-term debt</b>	<b>43.4</b>	<b>-33.4 %</b>	<b>176.4</b>	<b>306.3 %</b>	<b>176.2</b>	<b>-0.1 %</b>	<b>176.3</b>	<b>0.1 %</b>	<b>176.4</b>	<b>0.1 %</b>
<b>Short-term debt</b>										
Other provisions	14.3		0.8		0.7		0.8		0.8	
Trade payables	2.2		4.8		3.7		4.3		4.7	
Financial debt	86.9		54.4		72.7		72.7		69.4	
Other liabilities	13.0		18.4		14.3		16.3		17.9	
<b>Total short-term debt</b>	<b>150.7</b>	<b>63.2 %</b>	<b>98.7</b>	<b>-34.5 %</b>	<b>107.1</b>	<b>8.6 %</b>	<b>112.1</b>	<b>4.6 %</b>	<b>112.6</b>	<b>0.4 %</b>
<b>Total equity &amp; liabilities</b>	<b>347.8</b>	<b>18.2 %</b>	<b>474.2</b>	<b>36.4 %</b>	<b>494.1</b>	<b>4.2 %</b>	<b>513.8</b>	<b>4.0 %</b>	<b>534.2</b>	<b>4.0 %</b>

## DCF valuation

DCF model (EUR m)	2018	2019e	2020e	2021e	2022e	2023e	TV
Sales	206	160	183	200	225	240	
YOY change (%)	39.5	-22.2	14.4	9.3	12.5	6.7	
EBIT	33	35	40	46	52	55	
EBIT margin (%)	16.0	22.0	22.0	23.0	23.0	23.0	
Depreciation	0	1	1	1	1	1	
Net working capital	359	391	402	413	435	456	
Taxes	6	7	8	10	11	12	
Tax rate (%)	23.7	28.0	28.0	28.0	28.0	28.0	
Free cash flow	-31	-6	17	22	16	19	672
WACC	4.9%	4.7%	4.8%	4.9%	5.0%	5.1%	5.9%
Discounted FCF		-6	16	19	13	15	500
Contribution to EV		-1.1%	2.9%	3.4%	2.3%	2.7%	89.8%
<b>Discounted EV</b>	<b>556.5</b>						
Net Financial debt	214.2						
Minorities	0.0						
<b>Shareholder value</b>	<b>342.2</b>						
<b>Fair value per share</b>	<b>10.6</b>						

Source: Quirin Privatbank estimates

## WACC calculation

TV growth rate	1.0%
Risk free interest rate	1.5%
Risk premium	6.0%
Beta	0.8
Company interest rate	3.5%
Company tax rate	28.0%
Cost of equity	6.3%
Cost of debt	2.5%
<b>WACC</b>	<b>4.7%</b>

## Financial key ratios

Key ratios	2017	2018	2019e	2020e	2021e
<b>Per share data (EUR)</b>					
EPS	0.63	0.56	0.52	0.62	0.77
Book value per share	4.7	6.1	6.5	6.9	7.6
Free cash flow per share	-1.9	-1.4	-0.7	0.1	0.2
Dividend per share	0.17	0.16	0.17	0.16	0.19
<b>Valuation ratios</b>					
EV/Sales	2.39	2.16	2.96	2.55	2.27
EV/EBITDA	9.6	13.4	13.3	11.4	9.8
EV/EBIT	9.7	13.5	13.5	11.6	9.9
P/E	14.1	17.1	13.7	11.4	9.2
P/B	1.9	1.6	1.1	1.0	0.9
Dividend yield (%)	1.9	1.7	2.4	2.2	2.7
<b>Growth</b>					
Sales growth (%)	17.8	39.5	-22.2	14.4	9.3
EBITDA growth (%)	7.3	-9.1	7.5	14.2	14.1
EBIT growth (%)	7.3	-9.8	7.1	14.4	14.3
EPS growth (%)	-0.9	-10.4	-7.5	19.8	23.6
<b>Profitability ratios</b>					
EBITDA margin (%)	24.8	16.2	22.3	22.3	23.3
EBIT margin (%)	24.7	16.0	22.0	22.0	23.0
Net margin (%)	13.8	8.8	10.5	11.0	12.5
<b>Financial ratios</b>					
Total equity (EUR m)	153.7	199.1	210.7	225.4	245.3
Equity ratio (%)	44.2	42.0	42.7	43.9	45.9
Net financial debt (EUR m)	121.4	214.2	243.2	235.5	223.5
Net debt/Equity	0.8	0.0	1.2	1.0	0.5
Interest cover	4.0	3.3	2.8	3.2	3.7
Net debt/EBITDA	3.3	6.5	6.8	5.8	4.8
Payout ratio (%)	27.1	28.5	32.8	25.0	25.0



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The levels of change expressed in each rating categories are:

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HOLD <=-10% and < = +10%

SELL > -10%.

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Klaus Soer, financial analyst, hereby certifies that all of the views expressed in this report accurately reflect my personal views about any and all of the subject securities or issuers discussed herein. In addition, I hereby certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this research report, nor is it tied to any specific investment banking transaction performed by the Bank or its affiliates.

#### Price and Rating History (last 12 months)

Date	Price target-EUR	Rating	Initiation
11.11.2019	10.50	Buy	
18.02.2019	10.50	Buy	
09.11.2018	13.40	Buy	09.05.2018

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