

Price (Euro) **7.05**
52 weeks range 10.00 / 6.40

Key Data

ISIN DE000A0KFKB3
Bloomberg E7S:GR
Reporting standard IFRS
Market Cap (Euro million) 229
Number of shares (million) 32.4
Free Float 11.9%
Free Float Market Cap (Euro million) 27
CAGR EBIT ('18-'21e) 7.8%

Multiples	2018	2019e	2020e	2021e
Market Cap / Total revenues	6.9	8.6	7.7	6.9
PE-Ratio	12.5	10.0	13.1	10.2
Dividend Yield	2.3%	2.8%	2.8%	3.1%
Price-to-Book-Ratio	1.15	1.02	0.90	0.80

Key Data per share (Euro)	2018	2019e	2020e	2021e
Earnings per share (EPS)	0.56	0.71	0.54	0.69
Dividend per share (DPS)	0.16	0.20	0.20	0.22
Book Value per Share (BVPS)	6.14	6.94	7.84	8.86

Financial Data (Euro '000)	2018	2019e	2020e	2021e
Capital gains from property sales	33,085	26,715	29,654	32,916
Net rental income	6,130	7,183	8,349	9,700
Net service income	2,283	1,697	2,598	3,264
Operating profit (EBIT)	32,863	38,497	33,842	41,212
Net interest income	-8,925	-7,679	-11,551	-11,884
Pre-tax profit (EBT)	23,976	31,093	22,741	29,953
Income taxes	-5,675	-8,120	-5,350	-7,442
Net profit after Minorities	18,198	22,946	17,641	22,246
Shareholders' equity (Euro million)	348	474	538	597
Privatization Portfolio (Euro million)	344	389	418	447
RoE (after tax)	10.3%	10.8%	7.4%	8.2%
Equity ratio	42.0%	41.8%	42.6%	42.4%

Main Shareholders

Brookline Real Estate S.a.r.l. 83.3%
Adler Real Estate AG 4.8%

Financial calendar

2019 annual report 26 March 2020
1Q 2020 report 14 May 2020
2Q 2020 report 13 August 2020

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9M numbers with a steep 24% hike in EBIT and +48% in pre-tax profit, the Berlin Rent Cap might dampen mood and appetite of investors – target down to Euro 10.00 – Buy affirmed

Yesterday, the leading German company in residential property privatization and sales, ACCENTRO, released the 9M 2019 report. After a quite calm first half of the year with EBIT and pre-tax result clearly below the previous year, the company delivered a steep hike in the operating profit and pre-tax result after nine months. The 9M EBIT increased by 24% from Euro 20.9m to Euro 26.0m, the pre-tax profit even jumped by 48%, from Euro 13.0m to Euro 19.2m. The numbers were flattered by a net revaluation profit of Euro 11.4m, for the first time in the P & L, as the firm decided to build up a small IAS 40 investment property portfolio to retain a stable rental income stream to round out the privatization gains of the firm. This effect of the revaluation profit is smaller than at first glance, as there are minority stakes attributed to these investment properties which lead to a negative Euro -2.1m effect in the financial result. Furthermore, there are deferred taxes from the up-valuation of c. Euro 4m. The company confirmed the full year EBIT target of at least Euro 36m above last year's Euro 33m. For achieving this goal Accentro stated, that it needs a bigger global sale, which is negotiated at present.

All in all, the mentioned up-valuation was helpful for the 9M profit, but is just a part of the success story. With a surge in privatization activities in the third quarter, the 9M net profit after minorities steeply increased 55%, from Euro 8.5m to Euro 13.2m. The new investment portfolio is not only helpful with the 2019 up-valuation effect, but will also offer future upside potential by building new attics and occasionally new buildings. These positive effects from coming redensification are not included in the 9M 2019 numbers, so far.

With regards to the sold units, there was a slight decline, from 563 units last year to now 406 sold units. The firm stated that some sales activities started a bit later but there will a strong final quarter to bring overall profit probably above previous year's level. The firm also stated that so far there is no impairment in mood or investor's appetite for Berlin residential apartments since the Berlin Senate recently passed the so-called "Rent Cap". This Berlin's government measure is a hassle for Berlin oriented investors and may dampen the demand in near future, unless many experts say that the Federal Law regarding the landlord rental income ("Rent Freeze") leaves no room for a competing legislation at state level. Accentro has Euro 260m out of a total Euro 348m inventories portfolio in Berlin, which is c. 75%. **Against the background of the new Berlin Rent Cap legislation we bring down our target price for Accentro from Euro 12.00 to Euro 10.00, which still offers a tremendous +43% upside from the current low Euro 7.00 share price level.** The firm did right to spread activities into more German metropolitan regions three years ago, such as Leipzig, Rostock/ Usedom as well as North Rhine Westphalia (Cologne, Ratingen), which now stand for about a quarter of the inventories portfolio. **With the good 9M we maintain our Buy and even expand our EBIT forecast from € 33.5m to € 38.5m.**

SWOT Analysis

Strengths

- The CEO Jacopo Mingazzini is highly senior, experienced and well-known in the German real estate sector. He founded the ACCENTRO GmbH already in 1999.
- ACCENTRO has a leading position and a strong network in the market of residential privatization, on which they can built over the coming years
- Next to its core business of privatization, ACCENTRO offers services in the form of marketing- and sales-cooperation for other real estate companies and has entered into cooperations with renowned partners such as Vonovia and TAG. These partnerships are a good revenue addition to the revenues from the sale of inventory properties and should also further increase in the coming years
- The firm benefits from the rental income of the objects in the portfolio between the purchase and sale of these assets. With the intended buildup of the portfolio, the rental income will also climb.

Weaknesses

- ACCENTRO still lacks reputation in the market, which leads to a discount in their share price. As the firm gains more popularity and awareness with investors we see this current weakness turning into an opportunity for shareholders.
- The firm's free float is at only 11.9% still low. This clearly brings down the liquidity of the share and could lead to a higher volatility of the share. The recent capital hike was a first step to a more attractive capital markets profile, however.

Opportunities

- With the major shareholder Brookline Real Estate, ACCENTRO will be able to push their strategic goals faster. We believe that Brookline will support ACCENTRO to realize their organic growth potential in the privatization business and also make use of the further potential in regards to marketing- and sales cooperation with large developers and investors.
- The continued supply shortage in the market offers an opportunity to ACCENTRO to leverage their position and increase their numbers over the coming years. The good network of the company should allow ACCENTRO to continue to find lucrative objects on the market and also off-market, which can then be privatized and sold at a good margin as the demand continues to be high.
- ACCENTRO's main focus is currently on the city of Berlin, where about 82% of the privatization portfolio is located. Recently the company has already expanded to other locations such as the currently strong growing region of Leipzig. We also see other locations in Germany that fit in the acquisition profile of the company and that offer further potential for expansion and diversification.

Threats

- As 75% of the privatization portfolio is currently located in the city of Berlin, a declining Berlin market demand may result from economic factors or due to political risks such as the current Berlin Senate decision for a Rent Cap. The company has already expanded 3 years ago to other locations, such as Leipzig and North Rhine Westphalia to dilute this threat.
- A general downturn of the Germany residential market conditions, the economy or a change in demographics could negatively impact ACCENTRO's sales of the privatization portfolio. We don't see a big threat in the foreseeable future however. Furthermore, worst case, the company can still keep the objects in the portfolio and create cash flow from renting the apartments in times of weaker market conditions.
- The company's business could be negatively affected if ACCENTRO fails to find new deals to add to their privatization portfolio.
- Brookline Real Estate holds about 83% of all shares, thereby holding the large majority and has enough voting rights at the firm's annual meeting to decide on almost all of the matters of the company.
- A change in European monetary policy by the ECB regarding the termination of the currently all-time low-interest period could result in a relatively high increase of interest expenses and might also lead to higher expenses for ACCENTRO. We currently do not see any drastic changes in the near future however and the company has also already locked in some long term financing at good rates.

ACCENTRO Real Estate AG

Industry:	Real Estate	Management Board of ACCENTRO:
Sub-segment:	Residential	Jacopo Mingazzini (CEO/CFO)
Region:	Germany	
Headquarter:	Berlin	
Foundation	2006	
Employees:	56	Supervisory Board of ACCENTRO:
		Axel Harloff
IR Contact:		Dr. Dirk Hoffmann
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ACCENTRO Real Estate AG is a leading company for privatization of residential properties in economically strong regions in Germany, as well as for the marketing and sales for property investors and project developers. The company's strongest focus is on the city of Berlin, where currently almost 75% of the firm's inventory portfolio is located or including the greater Berlin area even more than 80% respectively. Furthermore, ACCENTRO has recently expanded in growth markets such as the Leipzig area or Hamburg.

Accentro GmbH was founded in 1999 by Jacopo Mingazzini and in 2011 became a subsidiary of Estavis AG, which was formed in 2006 and was renamed to ACCENTRO Real Estate AG in 2015. The firm has a focus on the German residential market since more than 15 years. Over the recent years ACCENTRO managed to build up a strong track record. For example, a total of more than 4,200 apartments with a volume of almost Euro 510m have been sold since 2015 (1,615 Units in 2018) and the inventory portfolio has significantly been expanded from Euro 155m book value in 2015 to Euro 348m at 9M 2019. Currently about 2,100 units are on the firm's balance sheet. Furthermore, the strong sales cooperations with investors and developers offer the company further potential for a rise in revenues in the coming years.

The financial position of the company is solid. The firm has an LTV of about 43% and an equity ratio of 40% at 9M 2019. The results of the recent 2018 FY showed a hike of almost 40% in the topline from Euro 147m in 2017 to Euro 206m in 2018, however a decline in the operating profit on EBIT basis and the bottom line. The firm delivered a lucrative gross margin from sales of 27.6% in 2018. It even climbed to 28.6% after the first nine months of 2019.

In terms of financing the company has strengthened its financing structure due to the early repurchase of a high-yield bond as of 30 June 2017. The company has further called its high-coupon convertible bond prior to maturity and has issued a Euro 100m 3 years corporate bond with a coupon of 3.75% in January 2018. An equity capital hike with a volume of Euro 20m was completed in October 2018.

Inventories portfolio as of 30 September 2019				
City	Book value/purchase price (in mEUR)	Units	sqm	Selling prices (EUR/sqm)
Berlin	259.7	1,089	78,049	4,420
Greater Berlin	27.6	260	16,283	2,571
Leipzig and Greater Leipzig	22.7	351	21,759	1,321
Rostock and Usedom	15.9	112	7,919	2,803
Rhein-Ruhr area (Cologne, Ratingen)	8.5	49	3,494	3,319
Hamburg area	3.1	15	1,396	2,850
Others (Weidenberg, Bayreuth)	10.9	191	11,360	1,147
Total	348.4	2,067	140,260	3,325

Source: Company Data, SRC Research

ACCENTRO Real Estate AG 31/12 IFRS ('000)	2016	2017	2018	2019e	2020e	2021e	CAGR '18 - '21e
Revenues from sales of inventory properties	116,920	137,859	194,009	148,259	164,567	182,670	
Expenses from sales of inventory properties	-80,543	-103,167	-160,924	-121,544	-134,914	-149,754	
Capital gains from property sales	36,377	34,692	33,085	26,715	29,654	32,916	-0.2%
Letting revenues	6,597	7,769	8,806	10,127	11,646	13,393	
Letting expenses	-2,032	-2,335	-2,676	-2,944	-3,297	-3,692	
Net rental income	4,565	5,434	6,130	7,183	8,349	9,700	16.5%
Revenues from services	1,588	1,714	2,794	2,898	3,623	4,347	
Expenses from services	-979	-766	-511	-1,201	-1,025	-1,083	
Net service income	609	948	2,283	1,697	2,598	3,264	12.7%
Other operating income	997	3,260	1,663	1,598	2,687	2,425	
Gross profit or loss	42,548	44,334	43,161	37,193	43,287	48,305	3.8%
Net revaluation result	0	0	0	12,020	1,895	4,577	
Total payroll and benefit costs	-2,986	-3,339	-4,613	-5,314	-5,668	-6,144	
Depreciation and amortisation	-114	-114	-349	-359	-378	-386	
Impairments of inventories and accounts receivable	-951	0	-205	-55	-147	-153	
Other operating expenses	-4,561	-4,465	-5,131	-4,988	-5,147	-4,987	
Earnings before interest and taxes (EBIT)	33,936	36,416	32,863	38,497	33,842	41,212	7.8%
Net income from associates	514	-14	2	248	411	574	
Other income from investments	18	35	36	27	39	51	
Interest income	298	304	944	1,678	436	589	
Interest expenses	-6,695	-9,107	-9,869	-9,357	-11,987	-12,473	
Net interest income	-6,397	-8,803	-8,925	-7,679	-11,551	-11,884	
Profit/loss before taxes (EBT)	28,071	27,634	23,976	31,093	22,741	29,953	7.7%
Income taxes	-7,390	-7,316	-5,675	-8,120	-5,350	-7,442	
	26%	26%	24%	26%	24%	25%	
Consolidated income from Continuing Operation	20,681	20,318	18,301	22,973	17,391	22,511	7.1%
Earnings after taxes of Discontinued Operation	5,792	-197	0	0	0	0	
Consolidated income	26,473	20,121	18,301	22,973	17,391	22,511	7.1%
Minorities	-181	24	-103	-27	250	-265	
Net profit/loss after minorities	26,292	20,145	18,198	22,946	17,641	22,246	6.9%
Number of shares ('000)	24,734	24,925	32,438	32,438	32,438	32,438	
Earnings per share (EPS)	1.07	0.81	0.56	0.71	0.54	0.69	
Dividend per share (DPS)	0.15	0.17	0.16	0.20	0.20	0.22	
Shareholders' Equity	136,836	153,697	199,104	224,988	254,236	287,287	13.0%
Balance Sheet sum	300,546	347,785	474,205	538,223	597,427	678,080	
Equity Ratio	45.5%	44.2%	42.0%	41.8%	42.6%	42.4%	
RoE (after tax)	21.4%	13.9%	10.3%	10.8%	7.4%	8.2%	-7.3%
Privatisation Portfolio (Euro million)	216	302	344	389	418	447	
Book Value per share (Euro)	5.53	6.17	6.14	6.94	7.84	8.86	13.0%

SRC Research
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Rating chronicle:

Company	Date	Rating	former share price	former target
ACCENTRO	9 August 2019	Buy	8.30 €	12.00 €
ACCENTRO	6 May 2019	Buy	8.45 €	12.00 €
ACCENTRO	25 March 2019	Buy	8.50 €	12.00 €
ACCENTRO	11 February 2019	Buy	8.90 €	13.00 €
ACCENTRO	6 November 2018	Buy	9.98 €	13.00 €
ACCENTRO	23 October 2018	Buy	9.56 €	13.00 €
ACCENTRO	9 August 2018	Buy	10.85 €	13.00 €
ACCENTRO	22 June 2018	Buy	11.15 €	13.00 €
ACCENTRO	22 May 2018	Buy	10.25 €	13.00 €

Please note:

The share price mentioned in this report is from 6 November 2019. ACCENTRO Real Estate AG mandated SRC Research for covering the share.

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