PREOS Global Office Real Estate & Technology AG

Germany / Real Estate
Xetra
Bloomberg: PAG GR
ISIN: DE000A2LQ850

Update

RATING	**BUY**
PRICE TARGET	**€ 17.60**
Return Potential	58.6%
Risk Rating	High

PORTFOLIO TOPS €1BN; STRATEGIC EVOLUTION CONTINUES

PREOS controls over €1bn of office assets in prime German locations, and management plan to add another €7bn of premium office space to the portfolio by YE24. The commercial landlord also wants to capitalise on digitalisation trends in big data, blockchain, and Internet of Things to become a PropTech trailblazer. The ambitious plan will augment core landlord activities as the company also internationalises these operations. Updated forecasts reflect the strategic expansion, and an upgraded medium-term outlook results in a €17.6 price target (old: €7.3). Our rating moves to Buy (old: Add).

Olek likely to take the PREOS reins publity boss, Thomas Olek, is considering taking over the helm of PREOS and stepping down as publity CEO. The PREOS Supervisory Board believes a greater hands-on approach would greatly benefit the company with its expansion plans. The office landlord has also widened its lens and wants to target properties in other European metropolises such as Paris and London. Mr Olek's experience would be instrumental in this endeavour. We think he will accept the post.

Focus on premium office space PREOS swapped its stake in its subsidiary PREOS Immobilien GmbH for a stake in GORE German Office Real Estate AG (overleaf) to sharpen its focus on higher-priced, premium office space. This could help shield PREOS from remote working trends that have gained momentum in the wake of the pandemic. Although corporates across Europe are rethinking working models and office footprints, we expect the office to remain the central hub even if hybrid workplace models are widely adopted. In this environment, we prefer high-quality, reconfigurable work space over old office stock that is battling accelerated obsolescence. With new waves of covid-19 sweeping across the world, lockdowns are back in vogue, and this will certainly reignite concerns over the future of the office. We asses the potential impact of WFH (work from home) trends on the office market later in this note with a hybrid workplace scenario. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020E	2021E	2022E	2023E
Net rent (€m)	0.70	14.39	36.63	81.98	133.57	182.68
Adj. EBITDA (€m)	2.70	4.82	11.52	36.70	65.22	92.40
Net income (€m)	8.25	62.78	53.12	61.05	124.59	210.76
EPS (diluted) (€)	2.95	4.82	0.42	0.48	0.98	1.7
EPRA NAV (€m)	31.32	413.35	570.74	833.84	848.56	946.28
NAVPS (€)	1.57	5.77	5.31	7.76	7.89	8.80
DPS (€)	1.50	0.00	0.80	0.84	0.88	0.93
FFO 2 (€m)	2.88	-7.19	-11.09	5.65	58.07	64.99
FFOPS 2 (€)	0.14	-0.10	-0.10	0.05	0.54	0.60
Liquid assets (€m)	1.33	61.41	44.87	177.18	82.81	99.00

RISKS

Risks include, but are not limited to, insufficient financing, weaker than expected trends for German office markets, failure to capture planned reversionary potential, or undershooting forecasted acquisitions.

COMPANY PROFILE

PREOS Global Office Real Estate & Technology AG is a real estate landlord specialised in the acquisition and optimisation of commercial properties throughout Germany. The company is also making inroads in PropTech and plans to internationalise operations.

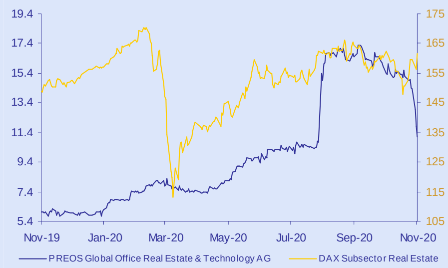
MARKET DATA

As of 11 Nov 2020

Closing Price	€ 11.10
Shares outstanding	107.50m
Market Capitalisation	€ 1193.25m
52-week Range	€ 5.77 / 17.30
Avg. Volume (12 Months)	31,187

Multiples	2019	2020E	2021E
P/FFO 2	n.a.	n.a.	211.2
P/EPRA NAV	1.9	2.1	1.4
FFO 2 Yield	n.a.	n.a.	0.0%
Div. Yield	0.0%	7.2%	7.6%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2020

Liquid Assets	€ 16.07m
Current Assets	€ 64.81m
Investment properties	€ 1,036.75m
Total Assets	€ 1,283.40m
Current Liabilities	€ 310.00m
Total Equity	€ 301.30m

SHAREHOLDERS

publity AG	84.0%
Free Float	16.0%

Analyst: Ellis Acklin, Tel. +49 (0)30 - 80 93 96 83

CLEARING OUT THE RECENT EVENTS NOTEBOOK

PREOS will rebrand under the name PREOS Global Office Real Estate & Technology AG to reflect its move into technology (overleaf). The company will also relocate its headquarters from Leipzig to Frankfurt am Main next year. Other key events the past months include:

Convertible bond tap issuances The company placed two €40m tranches and one €30m tranche of its 7.50% convertible bond (2019/2024, ISIN DE000A254NA6) in October. This brings total bonds outstanding to €249.4m. The tap ups were subscribed by publity AG, which holds and 86% in PREOS. The new liquidity will help finance planned growth.

First time dividend under consideration PREOS wants to pay out a dividend on 2020 earnings, which could amount to up to €100m, and set a dividend policy of a 5% yield in August. Although the distribution will be welcomed by shareholders, we question whether committing to a 5% dividend yield is the correct prioritisation right now. It might be more prudent to husband cash until the financing environment improves on the other side of covid-19. There is no official update on the planned dividend as of this writing.

Increased free float Majority shareholder, publity AG, signalled intentions to reduce its stake in PREOS to 25.01% by 2023. In July, publity sold a PREOS block to an international investor reducing its holding down to 86%. We expect this to be the blueprint for whittling down the stake to the targeted level.

Joining forces with GORE This summer, PREOS sold an 89.9% stake in its fully owned subsidiary, PREOS Immobilien GmbH, to commercial property operator GORE German Office Real Estate AG. In return, PREOS received 22.475m GORE shares (60% stake). The rationale for the realignment is PREOS' desire to concentrate on high-priced (>€50m) premium office space in top European hubs such as Paris, London, and Moscow in addition to metropolises on its home turf. PREOS Immobilien GmbH specialises in low to mid-range transactions (€10m to €40m) in the German office segment. This is better harmonised with the GORE business model, which targets deals of up to €15m.

JUMPING ON THE PROPTECH BANDWAGON

Some investors may raise an eyebrow at the notion that PREOS now regards itself as PropTech company on the basis of a partial tokenisation of its shareholders and access to a database. But the size of the database (>9.5k office properties) is indeed a formidable and distinguishing asset that can turf out rivals. And the company wants expand its technology foothold in the future and participate in other PropTech trends.

MORE ABOUT PROPTECH

The bureaucratic and stodgy real estate industry has always created a treasure trove of data, but harnessing its true value has only become in fashion of late with the rise of PropTech. By optimising the resilience of commercial assets, property technology can mitigate market risks and enhance long-term property value in key segments: (1) occupier experience; (2) operational performance via data & analytics; (3) construction technology; and (4) health and safety.

Landlords are adopting data analytics to improve property management, screen acquisition targets with greater precision, and optimise vacancy rates. Virtual tours via smartphone are now a thing. Sensors monitor facility activity to help optimise tenant experience through computer visualisation, while advancements in IoT (internet of things), big data, AI help mitigate risk, save energy, and improve workflow. Moreover, blockchain stands to simplify and disrupt the outdated transaction process by improving security and transparency, although we don't think we are there yet with the required technology for mainstream adoption.

As with other large industries that have digitalised, real estate is now well populated with PropTech startups. These newcomers are attracting financing to roll out an array of tools that will help some landlords optimise operations and severely challenge others unable to adapt to digital trends. We expect digital services to be highly lucrative and equally competitive.

PREOS UNVEILS PROPTECH STRATEGY

Shareholder tokenisation Main shareholder publity wants to issue blockchain-based tokens to securitize up to €1bn in PREOS shares by Q3/21. The first tranche (€500m) is planned for Q4/20. We acknowledge that the tokenisation step gives credence to PREOS' overall PropTech plans and helps pave the way for further technology initiatives. Plus, the company can now attract Generation X and Y investors seeking low-risk exposure to blockchain. Lower transaction fees would certainly also be welcomed.

But aside from this and the appearance of modernity, we fail to see how a tokenised shareholder structure improves financing efficacy or shareholder transparency since the core tenet of blockchain is obfuscation.

Capitalising on big data In our view the more interesting tech-driver is the publity database shared with PREOS. This siloes a wealth of office real estate data complied though years of extensive monitoring and promotes reliable estimates on the worth and future developments of specific assets. The ongoing expansion of PREOS' information network also creates a significant advantage that ensures prudent, long-term, and profitable investment decisions at the property level.

The database presently covers >9,500 German office properties. The company plans to license big data investment tools to third parties in 2021 that cover Cologne, Düsseldorf, Hamburg, Stuttgart, Munich and Berlin. PREOS also wants to expand big data coverage in 2022 to support its own investments in Paris, London, Vienna, Milan and Madrid.

The upshot Many real estate companies are turning to technology to gain an edge, and big data is the hammer that drives the digitalisation nail. From that standpoint, PREOS stands to benefit from its sizable data silo as it moves into deeper PropTech and digital services.

It's also worth noting that occupier experience / loyalty will increase in importance as the office segment combats WFH trends (overleaf). The company's new tech-strategy could help in this regard. But overall we think it is too early to justify a technology premium for PREOS shares. The company remains at its core a commercial landlord.

WHAT WILL BE THE NEW OFFICE NORM?

We are in the midst of the largest home-working experiment in history and see some risk of remote working trends braking frothy occupier demand. Corporates are reporting high investment into IT and communication infrastructures to support longer-term working-from-home (WFH) initiatives. This raises the question as to whether the increased shift towards WFH will permanently reduce demand for office space. We have modelled a flexible workspace to explore this issue.

But first, workforce mobility is nothing new We believe the market falsely assumes that corporates largely operated pre-pandemic on a fixed workplace basis with a mandatory attendance policy. Workforce mobility and flexibility concepts date back to 2013 and have been increasing in popularity for years leading to the introduction of “hoteling” or “hot-desking”. With these office management schemes workers are not assigned their own desks.

Hoteling allows workers to reserve a desk for their temporary use for the days they expect to work in the office, whereas hot-desking means any employee can grab any open desk while in attendance. The latter concept can be a bit of a free-for-all, although both require similar square meterage. Given these trends, our hybrid model assumes that occupiers already operate a flexible model that they plan to expand over the near term.

Hub & Club model We look at the potential impact on floor space demand with widespread adoption of flexible work policies. Hub & Club is a hybrid workplace model that buckets staff into four categories: (1) “Hub” employees require a fixed desk and are in attendance every day; (2) “Club” workers have flexible roles that involve in-person and virtual meetings; they are allowed to split time between the main office and secondary locations; (3) “Home” staff are set up to work from home 2-3 days per week; and (4) “Roam” employees are mainly on the road to conduct value-add meetings; they use hot-desks when visiting HQ or satellite offices.

OVERVIEW OF SIMULATION PARAMETERS

Table 1: Recalibrating the workplace

	Old		Future		
	Ratio	Headcount	Ratio	Headcount	*Variance*
Corporate staffing	**100%**	**400**	**100%**	**400**	***0%***
thereof:					
Hub workers	79%	316	65%	260	*-18%*
Home workers	15%	60	25%	100	*67%*
Club workers	1%	4	5%	20	*400%*
Roam workers	5%	20	5%	20	*0%*

Source: First Berlin Equity Research estimates

In our model, we have assumed occupiers operated with a 15% remote working factor and that 5% of staff was roaming (travelling, on holiday, etc) pre-pandemic. We also think secondary offices will become a greater portion of corporate footprints but this remains a small factor in the overall equation.

Table 2: Base scenario impact on required workspace

	Unit	Old	Future	*Variance*
Stations for hub office	#	316	260	*-18%*
Floor space per workstation	m²	6	8	*25%*
Total hub workspace	m²	1,896	1,950	*3%*
Secondary stations for club workers	m²	2	10	*400%*
Total secondary office workspace	m²	12	75	*525%*
Total required space	m²	1,908	2,025	*6%*
Capacity for staff growth	%	10	5	*-50%*
Required floor space	**m²**	**2,099**	**2,126**	***1%***

Source: First Berlin Equity Research estimates

Our base model assumes: (1) home workers will account for 25% of overall staff in the future; (2) hub office staff and fixed workstations will decline 18%; (3) occupiers will expand the square meterage per workstation from 6 to 8 (+25%) to offer better distancing; (3) a 50% hot-desk factor for Club workers; and (5) that expansion growth will decrease 50%. The net result is a 1% increase in overall workspace demand.

Our bear model assumes: (1) home workers will account for 30% of overall staff in the future; (2) hub office staff and fixed workstations will decline 24%; (3) occupiers will expand the square meterage per workstation from 6 to 7 (+20%) to offer better distancing; (3) a 50% hot-desk factor for Club workers; and (5) that expansion growth will decrease 50%. The net result is a 10% decrease in overall workspace demand.

Our bull model assumes: (1) home workers will account for 20% of overall staff in the future; (2) hub office staff and fixed workstations will decline 11%; (3) occupiers will expand the square meterage per workstation from 6 to 8 (+25%) to offer better distancing; (4) a 50% hot-desk factor for Club workers; and (5) that expansion growth will decrease 25%. The net result is an 11% rise in overall workspace demand.

Table 3: Summary of WFH scenario drivers and impact on required office space

	Base	Bear	Bull
WFH ratio	25%	30%	20%
Increase in m² per workstation	25%	20%	25%
Expansion capacity for new staff	-50%	-50%	-25%
Impact on required m²	**1%**	**-10%**	**11%**

Source: First Berlin Equity Research estimates

The upshot Although the pendulum is swinging towards more WFH initiatives, we suspect it will take several years for these factors to play out making it far too early to predict with any precision where the new WFH / office equilibrium will land. But frequent headlines about ramped up WFH initiatives have hurt sentiment for office landlords.

Allianz boss, Oliver Bäte, recently went on record that up to 40% of the insurer’s staff would be based at home in the future. Facebook has made similar boasts: 50% remote work force in five years. We think the current euphoria gripping large corporates and staff over the success of WFH initiates will wear off and sober up bold remote working projections.

We argue that urbanites with reasonable commutes (< 30 minutes) will gravitate back to the headquarters and satellite offices, once the pandemic is under control and FOMO (fear of missing out) effects override the novelty of working from the kitchen table. In this regard, we think PREOS is well positioned with its centrally located office buildings that remain appealing to ambitious urbanites. We have therefore not made any major changes to our mid-term office outlook based on WFH risks.

OFFICE PORTFOLIO NOW TOPS €1BN

PREOS has invested >€1bn into the German office space since the start off 2019 and now controls a stable of 18 properties with ~206,000 m² of lettable area. No further portfolio KPIs were disclosed.

In January, PREOS signed a purchase agreement for an office complex centrally located in Frankfurt am Main for an undisclosed amount. We estimate a purchase price of ~€200m based on going market rates. Westend Carree was fully revitalised in 2010, and features 30,550 m² of lettable area with a ~9% vacancy and four year WALT. Top tenants include the Max Planck Institute.

The Centurion office tower located in Frankfurt am Main was closed in April. The purchase price was not disclosed, but we assume a price tag of ~€120m based on its location. Centurion houses 28,000 m² of lettable area with a ~5% vacancy and 3.9 year WALT. The office tower was likewise extensively renovated in 2008.

The deals are emblematic of PREOS' plan to corral a stable of high-quality office assets in prime locations. As discussed above, we think these types of office assets should be more resilient to softening occupier demand.

Coronavirus impact on property transactions The number of scuppered commercial property transactions climbed sharply in Europe and across the globe during the lockdown period (March–May) with the number of collapsed deals reaching 2.9% of closed transactions in May (April 2.1%). According to CRE data-specialist, Real Capital Analytics, this is 7x the 2015 - 2019 mean but still far below the 12.9% rate during peak GFC (global financial crisis) in 2009. The market watcher more recently noted that Q3 German commercial transactions slid 47% on an annualised basis. This was the lowest quarterly level since 2013.

The dislocation could allow PREOS to snap up some bargain deals from distressed sellers needing to generate cash (assuming adequate financial firepower). But this could also extend planned holding periods for properties in its disposal pipeline, if closed transactions remain soft for an extended period.

BREAKING DOWN 6M/20 RESULTS

Business during H1/20 and the summer months was largely shaped by portfolio expansion and the associated financing, as well as a series of corporate chess moves. PREOS closed two large acquisitions in H1— including Westend Carrees and the Centurion office tower in Frankfurt. Revenue comprising mainly rental income from landlord operations totalled €18m for the six month period (H1/19: €3m). The increase owes to the portfolio expansion. PREOS no longer reports KPIs common to commercial landlords. We have therefore calculated adjusted EBITDA, FFO 1, and NAV to gauge performance.

Adjusted EBITDA, which reflects recurring operational profit excluding revaluation effects and capital gains, amounted to €1.8m on our calculations. FFO 1, the key industry indicator for recurring cash flow, totalled €-18m and was impacted by the €23m in interest expense coupled with portfolio expansion.

Table 4: Results vs prior year and forecasts

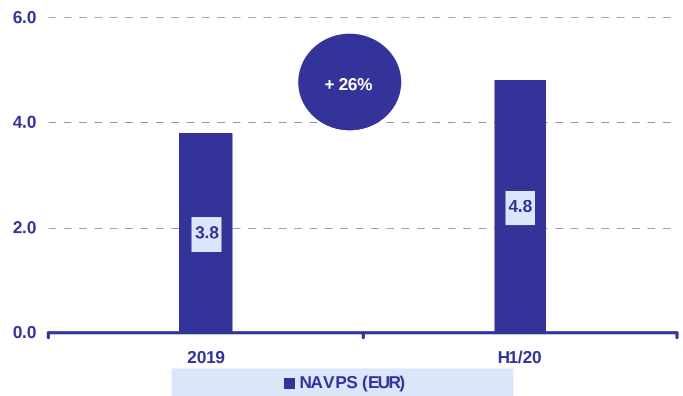
in € '000	H1/20	H1/20E	*variance*	H1/19	*variance*
Revenue	18,141	17,542	*3.4%*	2,957	*513.5%*
Adjusted EBITDA*	1,801	1,895	*-5.0%*	-4,654	-
Margin	*10%*	*11%*	-	*n.a.*	-
FFO 1*	-18,099	-18,222	-	-5,853	-
FFOPS 1*	-0.25	-0.25	-	-0.29	-
Net income (NI)	30,878	29,750	*3.8%*	23,657	*30.5%*
**First Berlin estimate; KPI not reported*					

Source: First Berlin Equity Research; PREOS Real Estate AG

Property revaluations & capital gains climbed in H1/20 to €68m (H1/19: €30m), owing chiefly to audited property revaluations. The increase underscores the company's ability to acquire underperforming assets at market discounts and extract embedded value through asset optimisation. This paves the way for PREOS to explore profitable disposal opportunities. The sale of optimised properties is a cornerstone of the PREOS business model and allows the landlord to make its crust. There was no significant disposal activity in the first six months. Strong net income (€31m) stems chiefly from the revaluation of the portfolio.

Net asset value developments As of H1/20, we calculate an EPRA NAV of €457m (€4.8 / share) compared to €420m at the end of 2019 (€3.8 / share, +26%). NAV growth owes predominantly to net profit of €27m, plus the effect of the in-the-money convertible bond (strike price: €6.6).

Figure 1: NAVPS development YTD



Source: First Berlin Equity Research; PREOS Real Estate AG

Balance sheet reflects strong growth phase The overall debt load rose sharply to €936m in conjunction with the portfolio expansion. Net debt totalled €919m at the end of H1 vs €545m at YE19 and translated to a net LTV of 89%. We expect this KPI to remain around 90% over the near term, assuming the market continues to provide attractive acquisition opportunities. The equity ratio dipped to 24% at the mid-year point.

Table 5: Financial highlights

in € '000	H1/20	2019	*variance*
Cash and liquid assets	16,071	61,414	*-74%*
Investment properties	1,036,747	612,101	*69%*
Total assets	1,283,398	912,866	*41%*
Total debt	935,557	606,116	*54%*
Net debt	919,486	544,702	*69%*
Shareholders' equity	301,306	263,214	*14%*
Equity ratio	23.5%	28.8%	-
EPRA NAV*	456,451	413,346	*10%*
Net LTV*	88.7%	89.0%	-
** First Berlin estimate; KPI not reported*			

Source: First Berlin Equity Research; PREOS Real Estate AG

Unsecured bond issuance on hold In July, the company announced plans to issue up to €400m in new corporate debt with the PREOS 2020/2025 Bond. The placement was envisioned for Q4 but management have put the issuance on hold in light of the tighter financing environment during the pandemic. We have therefore pushed the issuance out one year and have assumed only a €300m volume.

We have also factored in the recent convertible tap up issuance totalling €110m. The bonds (2019/2024, ISIN DE000A254NA6) feature: (1) five year maturity; (2) 7.5% coupon; and (3) at maturity, a redemption amount of 105% of the nominal value in December 2024.

REVISED OUTLOOK

Updated forecasts set up higher mid-term returns PREOS had been targeting a €2bn GAV by YE20 (H1/20: €1.0bn), but has recently pumped on the brakes, due to the pandemic. We now target €1.6bn for the end of the year. The landlord also wants to control up to €8bn of office properties in major European hubs by 2024. Since we cannot account for all the unknowns in the volatile pandemic environment, we have taken a more conservative approach. FBe 2024 factors in GAV of €4bn. This more than doubles our old target (GAV: €1.8bn) and accounts for the sharp increase in our valuation.

Table 6: Revisions to FBe and price target

	old	new	*revision*	*upside*	*dividend yield*	*total upside*
Price target (€)	**7.3**	**17.6**	***140.8%***	***58.6%***	***7.2%***	***65.8%***
		2020E			**2021E**	
in €m	**Old**	**New**	***variance***	**Old**	**New**	***variance***
Revenue	57,626	36,631	*-36%*	77,165	81,978	*6%*
Operating income	167,160	119,424	*-29%*	156,920	137,061	*-13%*
Adj. EBITDA[1]	38,117	11,510	*-70%*	57,774	36,713	*-36%*
margin	*66%*	*31%*	-	*75%*	*45%*	-
Net income	101,439	61,056	*-40%*	75,704	70,167	*-7%*
EPS (€) (diluted)	0.70	0.42	*-40%*	0.70	0.65	*-7%*

[1] adjusted for non-cash revaluation gains and disposal profits

Source: First Berlin Equity Research; PREOS Real Estate AG

Other key changes to our forecasts include: (1) dialled down H2/20 acquisitions and disposals; (2) revved up mid-term acquisitions better aligned, albeit much more conservative, with the announced 2024 GAV target; (3) recent convertible bond placements; and (4) an updated share count.

Our revised capital structure considers the partial conversion of the capital reserve to share capital in July. Shares outstanding consequently increase by 35.83m to 107.5m following the issuance of bonus shares to shareholders. We have also adjusted the diluted share count to reflect the convertible bond tap ups in October.

VALUATION MODEL

We now use a discounted cash flow model to value PREOS Global Office Real Estate & Technology AG. Our previous NAV-based methodology is less suitable due to the discussed evolution of the business model that will focus less on NAV growth. PREOS shares have decoupled from NAV metrics evidenced by a 2.1x P/NAV (including convertible bonds), which towers above the 0.4x mean of well established commercial peers.

Softening occupier demand, a disrupted transaction market, and lower reporting transparency are the key risk factors to our model. Management employ a highly leveraged financing approach to take advantage of the low interest rate environment and supercharge acquisition growth. This could backfire if there is a structural change in occupier demand or properties have to be held longer than planned. We have therefore increased our WACC by 50 basis points to 5.8% (old: 5.3%).

It is far too early to predict with any precision where the new WFH / office equilibrium will land and its long-term impact on office real estate. But one thing is clear: we see a market shake out on the horizon and believe quality, asset flexibility, and location will be differentiating factors for landlords. Our price target moves to €17.6 price target (old: €7.3), which corresponds to a Buy rating (old: Add).

DCF MODEL

All figures in EUR '000	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	**698**	**14,394**	**36,631**	**81,978**	**133,567**	**182,679**	**196,227**	**159,612**
NOPLAT	**10,633**	**33,927**	**60,290**	**85,357**	**92,001**	**72,667**	**48,384**	**34,040**
(+) depreciation & amortisation	16	35	57	78	83	68	48	37
Net operating cash flow	**10,648**	**33,962**	**60,347**	**85,435**	**92,085**	**72,735**	**48,432**	**34,077**
(-) Working capital	-13,501	-1,302	-1,438	-1,363	-328	1,131	1,411	855
(-) Property investments / disposals, net	-656,925	-831,174	-827,254	-677,925	750,906	1,474,701	1,103,496	487,350
(-) CapEx	-28	-63	-102	-140	-150	-122	-87	-66
Free cash flows (FCF)	**-659,806**	**-798,576**	**-768,447**	**-593,993**	**842,512**	**1,548,445**	**1,153,252**	**522,216**
PV of FCF's	-653,537	-735,598	-658,276	-473,202	624,182	1,066,844	738,924	311,169

All figures in thousands	
PV of FCFs in explicit period	1,030,553
PV of FCFs in terminal period	1,966,453
Enterprise value (EV)	2,997,005
(+) Net cash / - net debt	-512,219
(+) Investments / minority interests	0
Shareholder value	2,484,787
Fair value per share (€)	17.60

WACC \ Terminal Adj. EBITDA margin	-2.6%	-0.6%	1.4%	3.4%	5.4%	7.4%	9.4%
2.8%	47.7	48.1	48.4	48.7	49.1	49.4	49.7
3.8%	28.9	29.1	29.3	29.5	29.7	29.8	30.0
4.8%	21.3	21.5	**21.6**	**21.7**	**21.9**	22.0	22.1
5.8%	17.3	17.4	**17.5**	**17.6**	**17.7**	17.8	17.9
6.8%	14.7	14.8	**14.9**	**15.0**	**15.1**	15.1	15.2
7.8%	13.0	13.1	13.1	13.2	13.3	13.3	13.4
8.8%	11.7	11.8	11.8	11.9	12.0	12.0	12.1

Cost of equity	10.6%
Pre-tax cost of debt	4.5%
Tax rate	15.0%
After-tax cost of debt	3.8%
Share of equity capital	30.0%
Share of debt capital	70.0%
WACC	5.8%

WACC \ Terminal growth rate	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
2.8%	24.6	29.2	36.3	48.7	75.9	183.0	-379.3
3.8%	19.2	21.6	24.8	29.5	36.6	49.2	76.6
4.8%	16.0	17.4	**19.3**	**21.7**	**25.0**	29.7	37.0
5.8%	13.9	14.9	**16.1**	**17.6**	**19.5**	21.9	25.2
6.8%	12.4	13.1	**14.0**	**15.0**	**16.2**	17.7	19.6
7.8%	11.3	11.8	12.5	13.2	14.1	15.1	16.3
8.8%	10.4	10.8	11.3	11.9	12.5	13.3	14.2

**Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes*

INCOME STATEMENT

All figures in EUR '000	2018	2019	2020E	2021E	2022E	2023E
Revenue	**698**	**14,394**	**36,631**	**81,978**	**133,567**	**182,679**
Cost of sales	-28	-7,650	-16,118	-36,070	-58,770	-80,379
Revaluations & capital gains	8,265	101,683	107,930	100,383	206,846	328,815
Other operating income	2,506	4,407	100	0	0	0
Administration & other expenses	-517	-6,366	-9,103	-9,194	-9,562	-9,945
Depreciation & amortisation	-3	-64	-16	-35	-57	-78
Operating income	**10,921**	**106,404**	**119,424**	**137,061**	**272,025**	**421,093**
Net financial result	245	-12,020	-32,783	-50,916	-100,889	-131,611
Other financial expenses	-263	-14,224	-9,429	0	0	0
Pre-tax income (EBT)	**10,903**	**80,160**	**77,212**	**86,145**	**171,136**	**289,482**
Income taxes	-22	46	-1,759	-4,586	-12,889	-15,941
Deferred taxes	-2,633	-13,893	-14,398	-11,392	-15,035	-31,294
Net income / loss (NI)	**8,248**	**66,313**	**61,056**	**70,167**	**143,212**	**242,247**
Other tax & income	0	0	0	0	0	0
Comprehensive NI	**8,248**	**66,313**	**61,056**	**70,167**	**143,212**	**242,247**
Minority interests	0	-3,533	-7,937	-9,122	-18,618	-31,492
Net income after minorities	**8,248**	**62,780**	**53,118**	**61,045**	**124,595**	**210,755**
Basic EPS (in €)	**3.26**	**5.25**	**0.57**	**0.65**	**1.33**	**2.25**
Diluted EPS (in €)	**2.95**	**4.82**	**0.42**	**0.48**	**0.98**	**1.66**
Adjusted EBITDA	**2,659**	**4,785**	**11,510**	**36,713**	**65,236**	**92,356**
Ratios						
Adj. EBITDA margin	380.9%	33.2%	31.4%	44.8%	48.8%	50.6%
Tax rate	0.2%	-0.1%	7.5%	7.5%	7.5%	7.5%
Expenses as % of revenues						
Cost of sales	4.0%	53.1%	44.0%	44.0%	44.0%	44.0%
Administration & other expenses	74.1%	44.2%	24.9%	11.2%	7.2%	5.4%
Y-Y Growth						
Revenue	n.a.	1962.2%	154.5%	123.8%	62.9%	36.8%
Adj. EBITDA	n.a.	80.0%	140.5%	219.0%	77.7%	41.6%
Net income/ loss	n.a.	n.a.	-7.9%	14.9%	104.1%	69.2%

BALANCE SHEET

All figures in EUR '000	2018	2019	2020E	2021E	2022E	2023E
Current assets, total	**17,493**	**106,304**	**92,789**	**231,656**	**144,584**	**167,921**
Cash and equivalents	1,333	61,414	44,872	177,175	82,809	99,000
Trade receivables	197	1,457	3,713	8,310	13,540	18,518
Assets held for sale	15,600	0	0	0	0	0
Other financial assets	212	38,561	39,332	41,299	43,364	45,532
Other ST assets	151	4,872	4,872	4,872	4,872	4,872
Non-current assets, total	**80,053**	**806,562**	**1,562,197**	**2,493,982**	**3,528,330**	**4,535,338**
Investment properties	17,000	612,101	1,376,956	2,308,513	3,342,613	4,349,353
Property, plant & equipment	12	471	483	511	557	619
Goodwill & other intangibles	0	123,912	123,912	123,912	123,912	123,912
Financial assets	61,351	55,847	46,418	46,418	46,418	46,418
Shares in companies at equity	1,690	1,103	1,103	1,103	1,103	1,103
Advanced payments	0	13,128	13,325	13,525	13,728	13,934
Total assets	**97,546**	**912,866**	**1,654,986**	**2,725,637**	**3,672,914**	**4,703,259**
Current liabilities, total	**66,222**	**150,284**	**8,937**	**12,471**	**16,515**	**20,394**
Trade payables	107	15,391	4,146	7,441	11,233	14,848
ST debt	64,553	130,330	0	0	0	0
Other current liabilities	1,562	4,563	4,791	5,031	5,282	5,546
Non-current liabilities, total	**2,677**	**499,368**	**1,321,779**	**2,404,726**	**3,295,044**	**4,174,074**
LT financial debt	0	299,915	1,009,391	1,794,433	2,684,958	3,549,958
Corporate debt	0	143,388	253,388	553,388	553,388	553,388
Deferred tax	2,677	20,042	22,257	19,427	18,470	31,736
Other financial liabilities	0	36,023	36,743	37,478	38,228	38,992
Shareholders' equity	**28,647**	**256,565**	**309,683**	**284,732**	**319,030**	**434,973**
Minority interests	0	6,649	14,586	23,708	42,326	73,818
Total equity	**28,647**	**263,214**	**324,270**	**308,440**	**361,355**	**508,791**
Total consolidated equity and debt	**97,546**	**912,866**	**1,654,986**	**2,725,637**	**3,672,914**	**4,703,259**
Ratios						
Current ratio (x)	0.3	0.7	10.4	18.6	8.8	8.2
Net debt	63,220	512,219	1,217,907	2,170,645	3,155,537	4,004,346
Net gearing	221%	200%	393%	762%	989%	921%
Loan to value (LTV)	198%	94%	92%	102%	97%	94%
Net LTV	194%	84%	88%	94%	94%	92%
Equity ratio	29%	28%	19%	10%	9%	9%
Interest coverage (ICR) (x)	31.7	0.3	0.4	0.7	0.6	0.7

** According to IFRS reporting*

CASH FLOW STATEMENT

All figures in EUR '000	2018	2019	2020E	2021E	2022E	2023E
Net income	**8,248**	**66,313**	**61,056**	**70,167**	**143,212**	**242,247**
Depreciation and amortisation	0	54	16	35	57	78
Write downs non-financial assets	247	13,637	9,429	0	0	0
Revaluation gains	-8,265	-101,683	-95,986	-75,944	-100,233	-208,626
At equity gains / losses	16	587	0	0	0	0
Net financial result	-467	-6,263	42,212	50,916	100,889	131,611
Tax result	2,632	13,893	1,759	4,586	12,889	15,941
Operating cash flow	**2,411**	**-13,462**	**18,485**	**49,760**	**156,814**	**181,250**
Change in trade rec & other assets	269	-44,724	-3,028	-6,563	-7,295	-7,147
Change in payable & other liabilities	22,204	53,577	-11,245	3,295	3,792	3,615
Provisions and other liabilities	105	-3	3,164	-1,856	44	14,294
Other non-cash expenses / income	-2,506	-4,574	0	0	0	0
Tax expense	0	-9	-1,759	-4,586	-12,889	-15,941
Operating cash flow	**22,483**	**-9,195**	**5,617**	**40,050**	**140,467**	**176,072**
Outflow for investment properties	-22,525	-242,797	-788,502	-1,100,200	-2,000,203	-2,000,206
Inflow from property disposals	0	15,520	119,436	244,388	1,066,133	1,201,886
Purchase of at equity investments	-1,706	0	0	0	0	0
Sale of subsidiaries	233	17,889	0	0	0	0
CapEx	0	-353	-28	-63	-102	-140
Change in financial assets	-17,362	526	0	0	0	0
Cash flow from investing	**-41,360**	**-209,215**	**-669,094**	**-855,875**	**-934,172**	**-798,459**
Free cash flow (FCF)	**-18,877**	**-218,410**	**-663,476**	**-815,825**	**-793,706**	**-622,387**
Equity inflow, net	19,850	0	0	0	0	0
Debt inflow, net	0	247,561	579,146	785,042	890,526	865,000
Corporate debt, net	0	30,975	110,000	300,000	0	0
Interest expense	0	0	-42,212	-50,916	-100,889	-131,611
Dividends paid	0	0	0	-85,997	-90,297	-94,811
Others	0	-45	0	0	0	0
Cash flow from financing	**19,850**	**278,536**	**646,934**	**948,129**	**699,340**	**638,577**
Net cash flows	**973**	**60,126**	**-16,543**	**132,304**	**-94,366**	**16,191**
Cash, start of the year	360	1,333	61,459	44,916	177,220	82,854
Cash, end of the year	**1,333**	**61,459**	**44,916**	**177,220**	**82,854**	**99,044**
Adj. EBITDA / share (€)	**0.05**	**0.05**	**0.08**	**0.25**	**0.45**	**0.63**

Imprint / Disclaimer

First Berlin Equity Research

First Berlin Equity Research GmbH ist ein von der BaFin betreffend die Einhaltung der Pflichten des §85 Abs. 1 S. 1 WpHG, des Art. 20 Abs. 1 Marktmissbrauchsverordnung (MAR) und der Markets Financial Instruments Directive (MiFID) II, Markets in Financial Instruments Directive (MiFID) II Durchführungsverordnung und der Markets in Financial Instruments Regulations (MiFIR) beaufsichtigtes Unternehmen.

First Berlin Equity Research GmbH is one of the companies monitored by BaFin with regard to its compliance with the requirements of Section 85 (1) sentence 1 of the German Securities Trading Act [WpHG], art. 20 (1) Market Abuse Regulation (MAR) and Markets in Financial Instruments Directive (MiFID) II, Markets in Financial Instruments Directive (MiFID) II Commission Delegated Regulation and Markets in Financial Instruments Regulations (MiFIR).

Anschrift:
First Berlin Equity Research GmbH
Mohrenstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680
Fax: +49 (0) 30-80 93 9 687
E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B
UST-Id.: 251601797
Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV
First Berlin Equity Research GmbH

Authored by: Ellis Acklin, Senior Analyst
All publications of the last 12 months were authored by Ellis Acklin.

Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin

The production of this recommendation was completed on 12 November 2020 at 09:49

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

INFORMATION PURSUANT TO SECTION 85 (1) SENTENCE 1 OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO ART. 20 (1) OF REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO ART. 37 OF COMMISSION DELEGATED REGULATION (EU) NO 2017/565 (MIFID) II.

First Berlin Equity Research GmbH (hereinafter referred to as: “First Berlin”) prepares financial analyses while taking the relevant regulatory provisions, in particular section 85 (1) sentence 1 of the German Securities Trading Act [WpHG], art. 20 (1) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and art. 37 of Commission Delegated Regulation (EU) no. 2017/565 (MiFID II) into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

CONFLICTS OF INTEREST

In accordance with art. 37 (1) of Commission Delegated Regulation (EU) no. 2017/565 (MiFID) II and art. 20 (1) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) investment firms which produce, or arrange for the production of, investment research that is intended or likely to be subsequently disseminated to clients of the firm or to the public, under their own responsibility or that of a member of their group, shall ensure the implementation of all the measures set out in Article 34 (3) of Regulation (EU) 2017/565 in relation to the financial analysts involved in the production of the investment research and other relevant persons whose responsibilities or business interests may conflict with the interests of the persons to whom the investment research is disseminated. In accordance with art. 34 (3) of Regulation (EU) 2017/565 the procedures and measures referred to in paragraph 2 (b) shall be designed to ensure that relevant persons engaged in different business activities involving a conflict of interests carry on those activities at a level of independence appropriate to the size and activities of the investment firm and of the group to which it belongs, and to the risk of damage to the interests of clients.

First Berlin offers a range of services that go beyond the preparation of financial analyses. Although First Berlin strives to avoid conflicts of interest wherever possible, First Berlin may maintain the following relations with the analysed company, which in particular may constitute a potential conflict of interest (further information and data may be provided on request):

- The author, First Berlin, or a company associated with First Berlin holds an interest of more than five percent in the share capital of the analysed company;
- The author, First Berlin, or a company associated with First Berlin provided investment banking or consulting services for the analysed company within the past twelve months for which remuneration was or was to be paid;
- The author, First Berlin, or a company associated with First Berlin reached an agreement with the analysed company for preparation of a financial analysis for which remuneration is owed;
- The author, First Berlin, or a company associated with First Berlin has other significant financial interests in the analysed company;

In order to avoid and, if necessary, manage possible conflicts of interest both the author of the financial analysis and First Berlin shall be obliged to neither hold nor in any way trade the securities of the company analyzed. The remuneration of the author of the financial analysis stands in no direct or indirect connection with the recommendations or opinions represented in the financial analysis. Furthermore, the remuneration of the author of the financial analysis is neither coupled directly to financial transactions nor to stock exchange trading volume or asset management fees.

If despite these measures one or more of the aforementioned conflicts of interest cannot be avoided on the part of the author or First Berlin, then reference shall be made to such conflict of interest.

INFORMATION PURSUANT TO SECTION 64 OF THE GERMAN SECURITIES TRADING ACT [WPHG], DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 15 MAY 2014 ON MARKETS IN FINANCIAL INSTRUMENTS AND AMENDING DIRECTIVE 2002/92/EC AND DIRECTIVE 2011/61/EU, ACCOMPANIED BY THE MARKETS IN FINANCIAL INSTRUMENTS REGULATION (MIFIR, REG. EU NO. 600/2014).

First Berlin notes that is has concluded a contract with the issuer to prepare financial analyses and is paid for that by the issuer. First Berlin makes the financial analysis simultaneously available for all interested security financial services companies. First Berlin thus believes that it fulfils the requirements of section 64 WpHG for minor non-monetary benefits.

PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy[1]	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

[1] The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	19 November 2019	€8.65	Add	€7.30
2	Today	€11.10	Buy	€17.60

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

SUBJECT TO CHANGE

The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

Legally required information regarding

- **key sources of information in the preparation of this research report**
- **valuation methods and principles**
- **sensitivity of valuation parameters**

can be accessed through the following internet link: https://firstberlin.com/disclaimer-english-link/

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

EXCLUSION OF LIABILITY (DISCLAIMER)

RELIABILITY OF INFORMATION AND SOURCES OF INFORMATION

The information contained in this study is based on sources considered by the author to be reliable. Comprehensive verification of the accuracy and completeness of information and the reliability of sources of information has neither been carried out by the author nor by First Berlin. As a result no warranty of any kind whatsoever shall be assumed for the accuracy and completeness of information and the reliability of sources of information, and neither the author nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall be liable for any direct or indirect damage incurred through reliance on the accuracy and completeness of information and the reliability of sources of information.

RELIABILITY OF ESTIMATES AND FORECASTS

The author of the financial analysis made estimates and forecasts to the best of the author's knowledge. These estimates and forecasts reflect the author's personal opinion and judgement. The premises for estimates and forecasts as well as the author's perspective on such premises are subject to constant change. Expectations with regard to the future performance of a financial instrument are the result of a measurement at a single point in time and may change at any time. The result of a financial analysis always describes only one possible future development – the one that is most probable from the perspective of the author – of a number of possible future developments.

Any and all market values or target prices indicated for the company analysed in this financial analysis may not be achieved due to various risk factors, including but not limited to market volatility, sector volatility, the actions of the analysed company, economic climate, failure to achieve earnings and/or sales forecasts, unavailability of complete and precise information and/or a subsequently occurring event which affects the underlying assumptions of the author and/or other sources on which the author relies in this document. Past performance is not an indicator of future results; past values cannot be carried over into the future.

Consequently, no warranty of any kind whatsoever shall be assumed for the accuracy of estimates and forecasts, and neither the author nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall be liable for any direct or indirect damage incurred through reliance on the correctness of estimates and forecasts.

INFORMATION PURPOSES, NO RECOMMENDATION, SOLICITATION, NO OFFER FOR THE PURCHASE OF SECURITIES

The present financial analysis serves information purposes. It is intended to support institutional investors in making their own investment decisions; however in no way provide the investor with investment advice. Neither the author, nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall be considered to be acting as an investment advisor or portfolio manager vis-à-vis an investor. Each investor must form his own independent opinion with regard to the suitability of an investment in view of his own investment objectives, experience, tax situation, financial position and other circumstances.

The financial analysis does not represent a recommendation or solicitation and is not an offer for the purchase of the security specified in this financial analysis. Consequently, neither the author nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall as a result be liable for losses incurred through direct or indirect employment or use of any kind whatsoever of information or statements arising out of this financial analysis.

A decision concerning an investment in securities should take place on the basis of independent investment analyses and procedures as well as other studies including, but not limited to, information memoranda, sales or issuing prospectuses and not on the basis of this document.

NO ESTABLISHMENT OF CONTRACTUAL OBLIGATIONS

By taking note of this financial analysis the recipient neither becomes a customer of First Berlin, nor does First Berlin incur any contractual, quasi-contractual or pre-contractual obligations and/or responsibilities toward the recipient. In particular no information contract shall be established between First Berlin and the recipient of this information.

NO OBLIGATION TO UPDATE

First Berlin, the author and/or the person responsible for passing on or distributing the financial analysis shall not be obliged to update the financial analysis. Investors must keep themselves informed about the current course of business and any changes in the current course of business of the analysed company.

DUPLICATION

Dispatch or duplication of this document is not permitted without the prior written consent of First Berlin.

SEVERABILITY

Should any provision of this disclaimer prove to be illegal, invalid or unenforceable under the respectively applicable law, then such provision shall be treated as if it were not an integral component of this disclaimer; in no way shall it affect the legality, validity or enforceability of the remaining provisions.

APPLICABLE LAW, PLACE OF JURISDICTION

The preparation of this financial analysis shall be subject to the law obtaining in the Federal Republic of Germany. The place of jurisdiction for any disputes shall be Berlin (Germany).

NOTICE OF DISCLAIMER

By taking note of this financial analysis the recipient confirms the binding nature of the above explanations.

By using this document or relying on it in any manner whatsoever the recipient accepts the above restrictions as binding for the recipient.

QUALIFIED INSTITUTIONAL INVESTORS

First Berlin financial analyses are intended exclusively for qualified institutional investors.

This report is not intended for distribution in the USA and/or Canada.