

UBM Development AG

Buy (unchanged) **Target: Euro 52.00** (old: Euro 50.00)

25 | May | 2021



Der Spezialist für Finanzaktien

Price (Euro) **43,50**
52 weeks range 40.40 / 26.20

Key Data

Country	Austria
Industry	Real Estate
Segment	Development (trading oriented)
ISIN	AT0000815402
WKN	852735
Reuters	UBMV.VI
Bloomberg	UBS VI
Internet	www.ubm.at
Reporting Standard	IFRS
Fiscal Year	31/12
Market Cap (EUR million)	325,0
Number of shares (million)	7,47
Free Float	49,8%
Free Float MCap (million)	161,9
CAGR pre tax profit '19 - '22e	8,4%

Multiples	2020	2021e	2022e	2023e
MarketCap/revenues	1,77	1,62	0,75	0,98
PE ratio	8,2	10,2	6,5	5,8
Dividend yield	5,1%	4,1%	5,7%	6,4%
Price-to-Book ratio	0,68	0,66	0,61	0,57

Key Data per Share (Euro)	2020	2021e	2022e	2023e
Earnings per share (EPS)	5,33	4,26	6,71	7,49
Dividends per share (DPS)	2,20	1,80	2,50	2,80
Book Value per share (BVpS)	64,03	66,09	71,00	75,99

Financial Data (Euro '000)	2020	2021e	2022e	2023e
Revenues	183.339	200.687	432.554	332.669
Operating profit (EBITDA)	65.099	62.401	82.856	97.202
Operating profit (EBIT)	62.014	57.413	77.836	91.445
Pre-tax profit (EBT)	62.259	47.709	70.135	79.362
Net profit (after minorities)	39.804	31.814	50.112	55.946
Adj. shareholders' equity	478.467	493.843	530.506	567.772
RoE after tax	8,5%	6,5%	9,8%	10,2%

Financial Calendar

AGM	27 May 2021
1H 2021 report	25 August 2021
SRC Forum Financials & Real Estate	8 September 2021

Main Shareholders

Syndicate Ortner/ Strauss	38,8%
IGO Ortner Gruppe	6,4%
J. Dickinger	5,0%
Management & Supervisory board	3,9%

Analysts

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A good initial quarter with a hike in output and revenues, the huge demand for the sustainability bond reaffirms the right strategic move as well as the C+ Prime Status ESG rating – target up to 52 Euros

Today, UBM released the 1Q 2021 report and invited for a conference call in the afternoon. The company delivered a good start into the new year with a 3.8% hike in total output, from Euro 86.3m to Euro 89.6m and +1.5% in revenues, from Euro 41.3m to Euro 41.9m. UBM's first quarter pre-tax profit in the last year was flattered by the 40% ARE entry in the Munich residential project Bauberger Strasse and came in at Euro 39.3m. The first quarter result of this year was at a very satisfying level of Euro 16.1m, even more in comparison with the "more normal" first quarters in 2019 (Euro 7.9m) and 2018 (Euro 8.2m).

Besides the good start into the year, and even more important, is that the capital markets very much welcome the strategy to turn the company even stronger and faster into a green and sustainable direction. Two weeks ago, on 12 May, the company placed the 5 years sustainability linked bond with a low 3.125% coupon and a volume, which was lifted from Euro 125m to Euro 150m due to the high demand. About Euro 80m came from new subscriptions and about Euro 70m were subscribers of the old 2017 – 2022 bond (3.25% coupon), which decided to tender. The new bond placement reaffirms the trust of existing and new investors in the green and smart corporate strategy and widens the financial scope to quickly react to market opportunities.

Even before the bond placement, at 31 March, the balance sheet was comfortable with Euro 254m in cash (Dec. 2020 Euro 247m) and an equity ratio of 34.2%, almost unchanged to December at 35.2%. Keep in mind, that UBM already invested Euro 55m in February in the Bogner Headquarters in Munich, which will be converted to a residential development within the next 5 years. Without this investment, the cash position would have grown even to far above Euro 300m.

Another good point to underline the quick shift and streamlining of the company into a prosperous ESG direction is the highest "C+" Prime Status rating that UBM received last week from the ISS ESG rating agency for the very strong ESG orientation of the entire group. It is besides Hamburg alstria office REIT the only company in the German speaking area with this highest ESG certification level.

On the trading side, there was another good news last Friday, on 21 May, with the forward sale of the Austrian Rankency Graz 201 apartments residential project, which is scheduled to be finished in 1Q 2023. The buyer was a fund of GalCap Europe and the transaction price was Euro 33m. We expect more lucrative forward sales to come during the year, perhaps also Frankfurt Timber Pioneer office with 15k sqm to be completed in 2Q 2023.

With the good news flow of recent days and the decent 1Q picture, we expect the good share price development to continue. The UBM share price increased 12% in the last 4 weeks after our last update from 23 April after the release of the 2020 annual report. We stick to our Buy recommendation and lift our target price from Euro 50.00 to Euro 52.00, which is also backed by the 5% dividend yield for the dividend to be paid soon after the AGM on Thursday.

UBM Development AG

Industry: Real Estate Development
Sub-segment: Resi, Office, Hotels
Country: Austria
Headquarter: Vienna
Foundation: 1873
Employees: 339

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Management Board of UBM

Thomas G. Winkler, LL.M. (CEO)
 Dipl.-Ökonom Patric Thate (CFO)
 Dipl.-Ing. Martin Löcker (COO)

Supervisory Board of UBM

Ing. Karl-Heinz Strauss (Chairman)
 DI Iris Ortner (Dep. Chairwoman)
 DI Klaus Ortner Dr. Bernhard Vanas
 Dr. Ludwig Steinbauer Dr. Susanne Weiss
 Mag. Paul Unterluggauer Dkff. Birgit Wagner
 Martin Kudlicska Hannes Muster
 Johann Kaller Günter Schnötzing

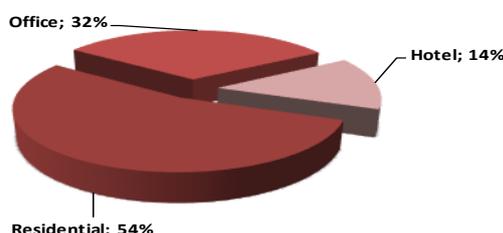
Founded in 1873 as "Union-Baumaterialien-Gesellschaft" the company has now an outstanding history of more than 145 years. Keep in mind, that since 1873, the firm is also listed on the Viennese stock market and thus is the oldest Austrian real estate company. After the initial focus was on the renting of construction equipment, the firm made a significant step ahead since the early Nineties where the firm started to initiate many new development projects after a 50% increase of share capital in 1991.

In 1992 the firm started to develop numerous lucrative projects in Eastern Europe, in particular in Poland and Czech Republic. Between 2001 and 2010 UBM entered some opportunistic marketes like France and the Netherlands with hotels. In 2014 PORR, the Vienna-based construction and development conglomerate decided to separate its non-core real estate development activities from its construction activities with the destination to create two pure play entities and separately listed companies. In this spirit, PIAG was used as a spin-off vehicle which held PORR`s non-core real estate development activities as well as PORR`s share in UBM. In a second step UBM Realitäten AG was merged with PIAG and Strauss & Partner to the "new" UBM.

The UBM Development AG acts now since 2016 as a pure-play trade developer. The high-quality development pipeline in European top metropole regions has broken the Euro 2bn threshold in mid of 2019 and stood at a record high level of Euro 2.5bn at year-end 2019 for the next 4 years 2020 to 2023 (2018 pipeline: Euro 1.8bn). Due to the Corona pandemic, the company rightsized the pipeline. Depending on the recovery, the pipeline is now seen somewhere between Euro 1.25bn and Euro 2.5bn. At the current level of Euro 2.3bn, the pipeline is split at about 54% residential units, about 32% office space, and 14% hotels. From potentially 16 hotels, 7 hotels are in in current development, and from the 7 hotels 3 are already sold. The remaining 4 hotels are 1 in The Netherlands, 2 in Germany and 1 in Czech and it is quite likely that UBM will put them on its own balance for the next 1 or 2 years after completion as to sell them for an unsatisfying price.

In 2018, the numbers marked a new record year as UBM had a net profit of almost Euro 40m. 2019 was another record year with a net profit of Euro 53m. The 2020 fiscal year was impacted by the Covid pandemic, however, considering the circumstances turned out to be were successful as well and above expectations. UBM will suggest to keep the dividend stable at Euro 2.20 per share given the strong own balance with a high equity ratio of 35% and a net LTV of only 35%. The dividend payment translates into a current dividend yield of almost 6%.

Pipeline split as of 31 December 2020
 (c. Euro 2.3bn pipeline)



Source: Company data, SRC Research

Very high demand for the new ESG-linked bond – UBM as a front runner in the industry

On 12 May, the company reported on the successful placement of a sustainability-linked bond. The demand was very high and the company decided spontaneously to lift the volume from originally Euro 125m to now Euro 150m. Nevertheless, the book had to be closed already after two hours. About Euro 70m came from the exchange offer for the UBM bond 2017-2022. The new bond has a coupon of 3.125% and a 2026 maturity. This very high demand shows on the one hand the continued trust that investors place in the company, but also reflects the shift to green financing, which is becoming more and more important, even more due to the regulatory changes coming, from 2022 obligatory for most of investors. Thus, we believe that UBM can benefit from that, as we see the company again as a front runner in that field in the industry. This is also underlined by the news from last week, 20 May, where the company's ESG rating was raised to the Prime Status by the ISS ESG rating agency with a rating of C+. This gives UBM the highest rating in the industry in Germany and Austria.

Real Estate and Construction (current ISS rankings¹)

UBM Development AG C+

alstria office REIT-AG	C+
Vonovia SE	C
Deutsche Wohnen SE	C
CA Immobilien Anlagen AG	C-
PORR AG	C-
Instone Real Estate Group AG	C-
LEG Immobilien AG	C-
Hochtief AG	C-
Bauer AG	C-
Deutsche EuroShop AG	C-
IMMOFINANZ AG	D+
S IMMO AG	D+
TLG Immobilien AG	D+
Strabag SE	D+
TAG Immobilien AG	D
Coreo AG	D-

Source: 1Q 2021 investor presentation 25 May

Graz Rankency forward sale for about Euro 33m

Last week Friday, on 21 May, the sale of the residential project Rankency in Austrian metropole Graz, where UBM holds a 70% share, was sold for about Euro 33m in a forward sale to a fund of GalCap Europe. The project, where construction started just a few days ago, will be completed in 1Q 2023 and comprises 201 apartments and 127 underground parking spaces. With the forward sale, the project will already partially contribute to earnings (percentage of completion). We expect the company to have reached a very attractive yield with the sale.

P & L UBM Development AG

31/12 IFRS (Euro '000 except for per share-data)	2018	2019	2020	2021e	2022e	2023e	CAGR '20 - '23e
Revenues	514.048	241.999	183.339	200.687	432.554	332.669	22,0%
Changes in the portfolio	-42.405	20.294	-21.145	25.987	12.478	-16.928	
Share of profit/loss of companies accounted for under the equity method	35.921	59.980	27.813	14.554	12.447	55.369	
Income from fair-value adjustments to investment property	223	46.270	69.853	14.112	15.440	19.587	
Other operating income	10.652	10.488	8.224	13.544	15.120	16.648	
Cost of materials and other related production services	-352.422	-202.198	-115.673	-123.569	-318.478	-221.589	
Staff expenses	-45.318	-36.644	-34.847	-35.741	-36.689	-37.241	
Expenses from fair-value adjustments to investment property	-7.340	-24.582	-7.543	-4.475	-5.441	-5.711	
Other operating expenses	-54.471	-40.641	-44.922	-42.698	-44.575	-45.604	
Operating profit (EBITDA)	58.888	74.966	65.099	62.401	82.856	97.202	14,3%
Depreciation, amortisation and impairment expenses	-2.946	-3.515	-3.085	-4.988	-5.020	-5.757	
Operating profit (EBIT)	55.942	71.451	62.014	57.413	77.836	91.445	13,8%
Financial income	32.001	20.711	23.899	16.597	19.744	17.687	
Finance costs	-32.399	-21.650	-23.654	-26.301	-27.445	-29.771	
Financial result	-398	-939	245	-9.704	-7.701	-12.084	
Earnings before tax (EBT)	55.544	70.512	62.259	47.709	70.135	79.362	8,4%
Income tax expense	-16.057	-20.450	-21.506	-15.021	-18.998	-20.449	
Tax rate	28,9%	29,0%	34,5%	31,5%	27,1%	25,8%	
Net profit before minorities	39.487	50.062	40.753	32.688	51.137	58.913	13,1%
Minorities	224	3.009	-949	-874	-1.025	-2.967	
Net profit after minorities	39.711	53.071	39.804	31.814	50.112	55.946	12,0%
Earnings per share (EPS)	5,31	7,10	5,33	4,26	6,71	7,49	
Dividends per share (DPS)	2,20	2,20	2,20	1,80	2,50	2,80	
Payout ratio	41,4%	31,0%	41,3%	42,3%	37,3%	37,4%	
Number of shares ('000)	7.472	7.472	7.472	7.472	7.472	7.472	
Adjusted shareholders' equity without minorities	428.902	456.833	478.467	493.843	530.506	567.772	5,9%
Total assets	1.234.655	1.316.389	1.372.021	1.481.783	1.526.236	1.602.548	5,3%
Equity ratio	35,3%	35,3%	35,5%	33,9%	35,4%	36,0%	
Book value per share (BVpS)	57,40	61,14	64,03	66,09	71,00	75,99	5,9%
RoE (after tax)	10,2%	12,0%	8,5%	6,5%	9,8%	10,2%	
* Figures of UBM Realitäten AG (before merger)							
Key ratios & figures	2018	2019	2020	2021e	2022e	2023e	
Growth rates in %							
Sales revenues	41,0%	-52,9%	-24,2%	9,5%	115,5%	-23,1%	
EBIT	15,1%	27,7%	-13,2%	-7,4%	35,6%	17,5%	
EBT	10,1%	26,9%	-11,7%	-23,4%	47,0%	13,2%	
Net profit after minorities	8,9%	33,6%	-25,0%	-20,1%	57,5%	11,6%	
Margins in %							
Operating profit (EBIT)	10,9%	29,5%	33,8%	28,6%	18,0%	27,5%	
Pre-tax profit (EBT)	10,8%	29,1%	34,0%	23,8%	16,2%	23,9%	
Net Profit (after minorities)	7,7%	21,9%	21,7%	15,9%	11,6%	16,8%	
Expense ratios in %							
Personnel costs to sales	8,8%	15,1%	19,0%	17,8%	8,5%	11,2%	
Cost of material to sales	68,6%	83,6%	63,1%	61,6%	73,6%	66,6%	
Depreciation to sales	0,6%	1,5%	1,7%	2,5%	1,2%	1,7%	
Profitability in %							
Return on equity (RoE) after tax	10,2%	12,0%	8,5%	6,5%	9,8%	10,2%	
Return on assets (RoA)	3,2%	4,0%	2,9%	2,1%	3,3%	3,5%	
Valuation							
P/E-ratio	7,3	5,5	7,3	9,1	5,8	5,2	
Price/ BV per Share	0,68	0,63	0,61	0,59	0,55	0,51	
Dividend yield	5,7%	5,7%	5,7%	4,6%	6,4%	7,2%	

SRC Research

- The Specialist for Financial and Real Estate Stocks -

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Rating Chronicle	Date	Rating	Former Price	Former Target
UBM Development AG	23 April 2021	Buy	38,80 €	50,00 €
UBM Development AG	01 February 2021	Buy	35,00 €	48,00 €
UBM Development AG	26 November 2020	Buy	35,70 €	47,00 €
UBM Development AG	23 November 2020	Buy	34,00 €	47,00 €
UBM Development AG	27 August 2020	Buy	30,40 €	45,00 €
UBM Development AG	26 May 2020	Buy	36,70 €	44,00 €
UBM Development AG	30 April 2020	Buy	35,00 €	44,00 €
UBM Development AG	25 March 2020	Buy	27,20 €	44,00 €
UBM Development AG	28 November 2019	Buy	46,00 €	54,00 €
UBM Development AG	28 August 2019	Buy	38,70 €	52,00 €

Please note:

The UBM share price mentioned in this report is from 21 May 2021. UBM mandated SRC Research for covering the UBM share.

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