

PREOS Real Estate AG

Hold (old: Buy) Target: Euro 11.80 (old: Euro 10.40)



Der Spezialist für Finanzaktien

12 | March | 2020

■ Price (Euro)	11.80			
52 weeks range	12.30 / 6.00			
■ Key data				
ISIN	DE000A2LQ850			
Bloomberg	PAG:GR			
Reporting Standard	IFRS			
Market Cap (million)	845.63			
Number of shares (million)	71.7			
Free Float	7.3%			
Free Float Market Cap (million)	61.7			
■ Multiples	2019e	2020e	2021e	2022e
Market Cap / Revenues	38.3	9.3	5.2	4.8
Price-Earnings Ratio (PER)	12.3	7.9	4.3	4.4
Dividend yield	0.0%	0.0%	0.0%	0.0%
■ Key data per share (Euro)	2019e	2020e	2021e	2022e
Net income per share	0.96	1.50	2.72	2.70
Dividend per share	0.00	0.00	0.00	0.00
NAV je Aktie	-	7.14	11.82	8.84
■ Financial Data (Euro '000)	2019e	2020e	2021e	2022e
Net rental income (NRI)	22,082	90,664	162,631	176,870
Gross rental income (GRI)	22,669	91,147	162,650	176,870
Personnel expenses	-702	-578	-590	-602
Other operating expenses	-56,873	-80,323	-61,134	-62,853
Gain or loss on measurement of investme	144,981	218,672	302,449	308,215
EBITDA (NOI)	110,075	228,918	403,375	421,630
EBIT	110,075	228,918	403,375	421,630
Interest income	917	796	0	116
Interest expenses	-15,244	-78,820	-115,188	-131,687
EBT	95,747	150,894	288,186	290,060
Tax	-31,783	-38,391	-83,396	-86,990
Net income	63,964	112,502	204,790	203,070
■ Main Shareholders				
publity AG	93%			
■ Financial Calendar				
2019 annual report	May 2020			
AGM	August 2020			
■ Analyst	Dipl.-Kfm. Stefan Scharff, CREA			
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PREOS increases profit to Euro 64m and tops expectations. The expansion of the portfolio by more than Euro 1bn in 2019 is very promising – Target price up to Euro 11.80, Rating down to Hold

Yesterday, PREOS released an extract of its preliminary results for 2019. At Euro 110m, EBIT was slightly above our expectations of Euro 108.5m (2018: Euro 5.7 m). At the same time, the group result of Euro 64m exceeded our forecast of almost Euro 49m (2018: Euro 3.1m). We conclude that the costs (not yet published) were lower than expected, which may be due to efficient transactions. The company expanded its portfolio by more than EUR 1bn in 2019. It meets the very ambitious requirements, which testifies to its high level of dynamism and market expertise.

When we started our coverage in November 2019, we introduced PREOS as active and dynamic investor with very strong market access. PREOS was able to prove this through numerous actions in just a few months. The issue of the 7.5% convertible bond last November was very well received, as a nominal volume of Euro 139.4m was already placed in early December within a few weeks. Among investors was the “Deutsche Mittelstandsanleihen FONDS” (Small & Mid Companies Fund) from KFM Deutsche Mittelstand AG, which subscribed Euro 5m, and is also the most relevant player in German-speaking countries for SME bonds.

In January, the purchase of the Frankfurt Westend Carree's with a lettable area of approx. 30,550 sqm was announced. The occupancy rate of the property was 91% and the WALT was approximately 4 years. It was agreed not to disclose the price of the off-market transaction. At the beginning of February 2020, PREOS was already able to report a property portfolio of Euro 1.1bn and from now on planned to purchase up to Euro 2bn in property volume.

Based on the dynamic development of the past four months in combination with the better-than-expected profit figures, we see our target price at that time as being exceeded and remain positive for the further course of the company. A forecast for the current year is not yet available, but based on the latest track record, we are confident that the management will meet its targets and goals.

The implementation of the originally ambitious goals is evident both from the high frequency of action and the convincing preliminary figures. We are waiting for further details on portfolio development and guidance on earnings development in 2020, which has not yet been published but should be released along with the annual report in May. For the moment we raise our target price from Euro 10.40 to Euro 11.80. As this is also the current share price level, we reduce our rating from Buy to Hold.

SWOT Analysis

Strengths

- PREOS has a very experienced management team, each with decades of expertise and a high-quality network, which is crucial for the success of the business model.
- Good structured processes from the entry, through asset management to exit minimize risk and increase the likelihood of strategic implementation.
- The objects that have already been acquired are a first demonstration of the ability for strategic implementation and, at the same time, an indicator of the dimension in which PREOS intends to emerge.
- The recent financing steps based on the valuation of Euro 8 to Euro 10 per share certify the trust of the significant shareholder and indicate an enterprise value above the current market capitalization.
- PREOS is considered to be an active real estate investor. While the expected cash flow represents a significant stabilizer, the expected and partially realized property sales are a considerable growth driver.

Weaknesses

- Due to the young age of PREOS, there is only a short company history.
- Lack of comparability of previous corporate figures with the desired development.
- The valuation of the company is based exclusively on the DCF valuation, as a NAV observation in the context of current developments has low significance.
- The PREOS share is currently listed in the Munich stock exchange's m:access segment, where transparency level is higher than in the "normal" open market. The next step for the share would be a Prime Standard listing.

Opportunities

- If the economy and, consequently, the real estate markets continue their positive development, the strategic positioning of PREOS is expected to result in significant earnings and balance sheet growth. The earnings contribution from the sales proceeds in combination with the relatively favorable financing conditions is the main driver of earnings.
- The combination of the strategic positioning and the management expertise of PREOS could, if successful, be the most efficient growth story in the current macro environment.
- The continuing increase in demand for high-priced and large-volume office properties in German metropolitan areas has enormous impact at the market. This is expected to result in sustained growth in both rents and property prices.

Threats

- The largely externally financed (leveraged) property purchases, which are an essential pillar of the strategy, represent a risk to the implementation of the strategy if there is a lack of willingness to finance the purchases.
- PREOS competes with many players in a competitive market and is therefore at risk of not getting the suitable assets.
- The market risk affects all companies in the real estate industry and should therefore be seen as a general one. A cyclical reversal of the currently positive market development such as Brexit or even more global trade wars could affect the earnings situation in the entire real estate sector. The development of rents and real estate prices as major earnings drivers could be affected negatively.

PREOS Real Estate AG

31/12 IFRS ('000)

	2019e	2020e	2021e	2022e	2023e
Net rental income (NRI)	22.082	90.664	162.631	176.870	161.683
Recoverable operating expenses	587	483	19	0	0
Gross rental income (GRI)	22.669	91.147	162.650	176.870	161.683
Personnel expenses	-702	-578	-590	-602	-614
Other operating expenses	-56.873	-80.323	-61.134	-62.853	-56.474
Gain or loss on measurement of investment property	144.981	218.672	302.449	308.215	244.125
EBITDA (NOI)	110.075	228.918	403.375	421.630	348.720
Depreciation	0	0	0	0	0
EBIT	110.075	228.918	403.375	421.630	348.720
Interest income	917	796	0	116	1.740
Interest expenses	-15.244	-78.820	-115.188	-131.687	-94.763
EBT	95.747	150.894	288.186	290.060	255.698
Tax	-31.783	-38.391	-83.396	-86.990	-76.709
Net income	63.964	112.502	204.790	203.070	178.989

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Rating chronicle:

Company	Date	Rating	Former Price	Former Target
PREOS Real Estate AG	20 November 2019	Buy	9.05 €	10.40 €

Please note:

The share price mentioned in this report is from 11 March 2020. PREOS Real Estate AG mandated SRC Research for covering the share.

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