

Deutsche Grundstücksauktionen

Real estate

19 May 2021

Reaching new heights

Despite the macro headwinds, Deutsche Grundstücksauktionen (DGA) reported record-high auction sales in FY20 of €142.7m (significantly above the €100.1m in FY19) and commission income of €12.7m (versus €10.1m in FY19). DGA continued its strong performance in Q121, reporting turnover of €37.9m – the second-highest quarterly result in its history (only behind Q320), with €47.8m group sales. The group benefits from agreements with government institutions, which offer high-volume properties for sale and fueled a 51.3% y-o-y increase in average sale price across the group to €96.6k. On the other hand, due to a regressive commission scale, the average commission rate declined from 10.1% to 8.9% in FY20. Management expects a slight decline in transaction volume in FY21, as the FY20 figure was inflated by significant one-off transactions.

Record-high sales and earnings

DGA increased its FY20 standalone commission income by 65.1% y-o-y to €5.8m as it almost doubled its auction sales volume versus FY19. The parent company recorded c €1.1m profit for the period (€0.7m loss in FY19) which, together with €1.9m profit from fully owned subsidiaries, translated into a record-high pre-tax profit of €3.0m and €2.1m net profit in FY20. Management has not provided guidance on FY21 figures due to an uncertain pandemic impact over the year.

Single asset sales fuel real estate market rebound

The German real estate investment market is slowly rebounding from the pandemic-driven downturn, with €16.5bn transaction volumes recorded in Q121 (source: Jones Lang LaSalle (JLL)), above the Q220 and Q320 totals, although it fell 41% short of the Q120 figure. The share of the 'living' segment expanded to c 46% in Q121 (vs 24% in FY19), due to its low-risk characteristics amid the pandemic. Q121 portfolio transactions decreased by c 62% y-o-y to €6.5bn, while single asset sales (which seem more relevant when looking at DGA's business), fell by just 7% versus Q120.

Valuation: Robust 6.7% dividend yield

DGA announced a dividend payment of €1.35 per share, from both FY20 and FY19 earnings, as it distributed only 49% of the FY19 net profit last year. This translates into a 6.7% dividend yield, sitting well above the 1.03% trailing 12-month yield of the iShares MSCI Germany Small-Cap ETF, which we use as a reference point due to the lack of direct listed peers.

Historical financials						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	11.2	1.2	0.76	0.77	26.6	3.8
12/18	12.0	1.6	1.00	1.00	20.2	5.0
12/19	10.1	0.8	0.31	0.15	65.2	0.7
12/20	12.7	3.0	1.28	1.35	15.8	6.7

Source: DGA accounts

Price €20.20
Market cap €32m

Share price graph



Share details

Code	DGR
Listing	Deutsche Börse Scale
Shares in issue	1.6m
Last reported net cash at 31 December 2020	€3.8m

Business description

Deutsche Grundstücksauktionen is a market leader in the auctioning of all types of properties in Germany. It expanded actively after its 1999 listing with a network of four regional auction houses, operating in Saxony, West and Northern Germany. It also has an online auction company.

Bull

- Sustained long-term demand for property, assisted by a favourable interest rate outlook.
- Clear market leader with experienced management and wide client base.
- Real estate market may be considered a safe haven by investors.

Bear

- Macroeconomic uncertainties related to coronavirus outbreak and economic downturn.
- Highly competitive environment.
- High risk of a property market bubble.

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Financials: Top line shaped by high-volume auctions

DGA reported record-high group turnover from auction sales of €142.7m at group level in FY20, up c 42.6% y-o-y. It is worth noting that the increase in volume was recorded despite a 5.7% y-o-y decline in the number of properties sold to 1,478 (1,568 in FY19). It was mainly attributable to the strong contribution from private and corporate customers, fuelled by favourable price dynamics and strong demand, resulting in an improved group-wide completion rate of 90.5% (versus c 85% in FY19). DGA also benefited from cooperation with government institutions, normally offering larger properties for sale.

Exhibit 1: Auction sales volumes

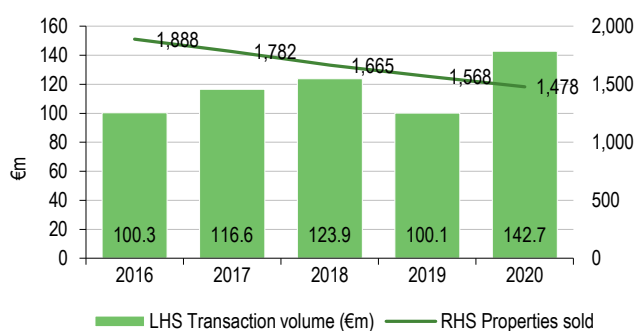
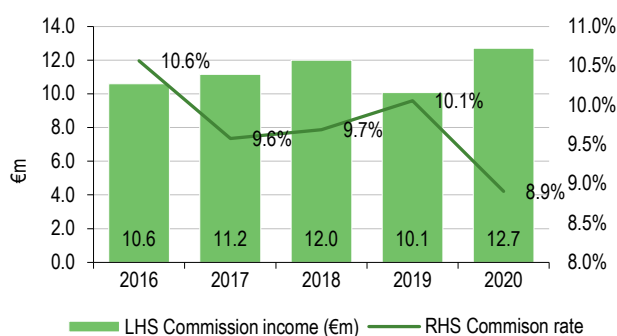


Exhibit 2: Commission income and margin



Source: DGA accounts

Source: DGA accounts

In FY20, the group sold 493 real estate properties on behalf of federal agencies for c €32m (FY19: 534 for €14m), including the successful auction of two large properties on behalf of the Institute for Federal Real Estate (Bundesanstalt für Immobilienaufgaben) for c €9.9m and €1.1m. Due to a regressive commission scale (the larger the sales volume, the lower the margin earned), the average rate fell to 8.9% in FY20 from 10.1% in FY19, but DGA nevertheless managed to report record-high commission income of €12.7m (€10.1m in FY19).

Exhibit 3: Financial highlights

€000s	FY20	FY19	change y-o-y
Turnover from auction sales (group)	142,748.3	100,114.4	42.6%
Net commission (group)	12,710.7	10,066.9	26.3%
<i>Net commission rate (group)</i>	<i>8.9%</i>	<i>10.1%</i>	<i>-115 bps</i>
Revenue from auction sales (parent)	5,662.0	3,428.5	65.1%
Other operating income	110.4	125.1	-11.7%
Material costs	(67.6)	(131.5)	-48.6%
Labour costs	(2,103.4)	(1,834.3)	14.7%
Other operating costs	(2,326.1)	(2,060.2)	12.9%
Depreciation / interest etc.	(211.9)	(197.3)	7.4%
Parent company profit	1,063.4	(669.8)	NM
Income from participating interests	2.4	0.0	NM
Profit / losses from subsidiaries, of which:	1,930.7	1,434.6	34.6%
Sächsische Grundstücksauktionen	1,069.6	640.6	67.0%
Norddeutsche Grundstücksauktionen	235.6	328.3	-28.2%
Plettner & Brecht Immobilien	18.5	50.9	-63.6%
Deutsche Internet Immobilien Auktionen	106.5	93.2	14.2%
Westdeutsche Grundstücksauktionen	500.6	321.7	55.6%
Pre-tax profit	2,994.2	764.8	291.5%
Income and other taxes	(943.9)	(270.3)	249.2%
Net profit	2,050.2	494.5	314.6%

Source: DGA Accounts

The company carried this positive momentum into the current year, as total turnover from auction sales in Q121 reached €37.9m, which constitutes a c 17.5% y-o-y improvement against Q120, which was largely unaffected by the pandemic. Q121 was the best first quarter in recent years and

the second-best quarter overall, trailing only Q320 with €47.8m group sales (which likely included some catch-up effects from the initial impact of COVID-19 in Q220). Net commission earned in Q121 amounted to €3.3m, c 3.5% above income in the corresponding period in 2020, translating into an 8.7% margin, marking further compression compared to FY20.

As DGA continues to report under German Accounting Standards (HGB), it presents standalone financial statements with a single line item, representing the results of five fully owned subsidiaries. Bearing in mind that the parent company makes up c 40% of aggregate turnover and c 44.5% of total commission income, a detailed top-down analysis of the profit and loss statement provides only partial information about the group's overall revenue and earnings position. On a standalone basis, DGA managed to increase its revenue from auction sales by c 65.1% to €5.6m, while operating costs increased to a lesser extent, partially due to bonuses paid to employees. Consequently, the parent company's FY20 profit was €1.1m compared to a €0.7m loss in FY19. With all five fully owned subsidiaries reporting a net profit of €1.9m (€1.4m in FY19), the FY20 net result of the group reached a record-high €2.1m versus €0.5m in the previous year.

Given the persisting macro uncertainties, DGA's management has not released any guidance for FY21 (similarly to last year). Having said that, it targets overall auction turnover in the current year to reach the previous seven-year average level of €112.7m, with c €19m attributable to public clients, with which it has contracts until end-2021 (Deutsche Bahn) and 2023 (Institute for Federal Real Estate and BVVG). This amount is well below the €32m recorded in FY20, as DGA considers high-volume, single-asset sales completed in FY20 as one-off events. Nevertheless, we note that DGA has already reported strong Q121 earnings, followed by an increase in admissions for summer auctions.

Increasing contribution from subsidiaries

FY20 was especially successful for the parent company, which almost doubled sales volumes despite auctioning fewer properties (257 versus 301). At the same time, two out of five fully consolidated subsidiaries were able to somewhat replicate this success, with the other three posting slight y-o-y declines in total transaction volumes. Overall, the subsidiaries reported a c 19.3% increase in aggregate transaction volumes to €84.9m, as they were able to quickly implement the new business operating model involving remote auctioning through internet livestreaming.

Exhibit 4: Auction sales turnover breakdown by subsidiary

	Sales volume (in €000s)			Objects sold		
	2020	2019	y-o-y	2020	2019	y-o-y
Deutsche Grundstücksauktionen (parent)	57,800	28,932	99.8%	257	301	-14.6%
Subsidiaries:						
Deutsche Internet Immobilien Auktionen	3,323	3,425	-3.0%	428	458	-6.6%
Sächsische Grundstücksauktionen	32,860	22,360	47.0%	362	371	-2.4%
Norddeutsche Grundstücksauktionen	12,777	13,001	-1.7%	189	169	11.8%
Plettner & Brecht Immobilien	16,415	17,400	-5.7%	138	129	7.0%
Westdeutsche Grundstücksauktionen	19,573	14,997	30.5%	104	140	-25.7%
Total subsidiaries	84,948	71,183	19.3%	1,221	1,267	-3.6%
Group total	142,748	100,115	42.6%	1,478	1,568	-5.7%

Source: DGA accounts

Sächsische Grundstücksauktionen remains the largest contributor to group auction sales among the subsidiaries, posting €32.9m in FY20. It benefited from agreements with federal institutions, as 101 properties out of the 362 auctioned during the year were sold on their behalf. With an expanding share of high-volume properties, the average sales price increased by c 50.6% y-o-y to c €90.1k. In Q121, the subsidiary completed sales amounting to c €8.9m, compared to €6.9m in Q120, with a further 103 objects valued at c €6.1m already admitted for Q221 auctions.

In FY20, **Westdeutsche Grundstücksauktionen**, reported the second largest contribution to aggregate auction turnover among subsidiaries (€19.6m) despite completing just 104 sales compared to 140 in FY19. The decline in the number of properties sold by the subsidiary resulted at least partially from its lower success rate, which sits at 77.6% compared to 81.8% in FY19. However, we note that due to extensive expertise in special and commercial real estate, this company sells properties with the highest average price of €188.2k, which increased by 75.7% against FY19, according to our calculations.

It is worth noting that all subsidiaries relied on their own remote auction capacities to continue operations during the pandemic, and (with a single exception) did not use **Deutsche Internet Immobilien Auktionen's** set-up for this purpose. However, the subsidiary, benefited from global expansion in remote services and increased demand for land.

Revival in real estate investment activity

According to JLL, transaction volumes in the German real estate investment market reached €16.55bn in Q121, falling c 41% short of €27.90bn recorded in Q120. However, we note that in Q120 the market was yet to experience any impact of the pandemic, reporting the highest first-quarter transaction volume historically. We also note that Q1 is traditionally the weakest quarter of the year, and therefore the fact that Q121's total exceeded Q220 (€14.52bn) and Q320 (€15.66bn) suggests a market revival. However, its sustainability is still dependent on further pandemic developments, as the high level of uncertainty strengthened investment focus on lower-risk asset classes. In Q121, the resilient 'living' sector (including residential, student housing, micro living and elderly care homes) further increased its share of overall transaction volumes to c 46%, compared to 31% in 2020 and 24% in 2019. Moreover, the top four and number eight of the 10 largest transactions completed over the period were all related to sales of residential portfolios or nursing and retirement homes, although this was mainly attributable to the weakness in other market segments, with only 10 transactions with a volume in excess of €200m in Q121. Overall, multi-asset transaction volumes fell by c 62% y-o-y to €6.5bn (€17.2bn in Q120), while single asset sales declined by just 7% to €10.0bn versus €10.7bn in Q120. We note that DGA's operating scope includes individual property sales only, which helped it avoid a significant impact on its results.

Valuation

As DGA's operations continue to be broadly unaffected by the pandemic-driven economic slowdown, it returned to paying all profits as a dividend. The dividend yield as at 18 May 2021 is a healthy 6.7%, significantly exceeding the 1.03% trailing 12-month yield of the iShares MSCI Germany Small-Cap ETF, which we continue to use for valuation purposes due to the lack of direct peers listed on the Frankfurt Stock Exchange. However, it is worth noting that the announced €1.35 per share distribution also includes the undistributed part of the FY19 profit, as FY20 EPS stood at €1.28. As there are no consensus data available for DGA and the ETF, we base our comparison on last reported earnings. The company's P/E multiple based on FY20 profit sits at 15.8x against 9.3x for the iShares MSCI Germany Small-Cap ETF.

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