

## Deutsche Grundstücksauktionen

Real estate

14 September 2021

### Increasing trade volume on favourable pricing

Group transaction volumes rose c 44% y-o-y in H121 to €86.3m, with almost all Deutsche Grundstücksauktionen (DGA) group companies contributing to the improvement. This expansion results mainly from favourable pricing developments and size of properties sold, as the average price per asset increased by c 47% y-o-y. Due to its regressive commission scale, group revenues increased by 31% to €7.6m, which boosted pre-tax profit by 80% y-o-y to €2.3m on a consolidated basis, with fully owned subsidiaries contributing c €1.6m to the group's pre-tax result. With €40.7m already submitted for Q321 auctions, DGA has increased its annual transaction volume target to €135m (from €112.7m).

### 82% y-o-y increase in net profit

On a standalone basis, DGA reported transaction volume of €32m in H121 (versus €26.5m in H120) and revenue of €3.0m (versus €2.9m from auctioning and property management services). The c 5.4% y-o-y increase in operating costs, driven by higher personnel expenses, resulted in an increase in pre-tax profit of just 3.4% y-o-y to €0.7m. Including subsidiaries, DGA reported net income of €1.5m (up 82% y-o-y), which translated into EPS of €0.96 for the period.

### Improving volume of single-property transactions

The German real estate investment market recorded a c 20% y-o-y decline in transaction volume in H121, according to Jones Lang LaSalle (JLL). However, the market for single asset transactions, which is the main focus for DGA, expanded by 25% to €22.7bn (67% share in overall transaction volume). The broad residential sector (which includes student housing and micro living) remains the largest contributor, with a c 35% share of total trade volume in the German real estate investment market. Q221 figures suggest some revival in the office segment.

### Valuation: Trading at a premium to comparable index

Based on a P/E ratio calculated on last 12 months (LTM) earnings figures at end-June 2021, DGA is trading at a 34% premium to the iShares MSCI Germany Small-Cap ETF, which we use for valuation purposes due to the lack of direct peers. Based on consensus (consisting of one estimate), DGA's P/E multiple expands from 13.5x for the LTM at end-June 2021 to 14.8x for 2021e and 16.9x for 2022e. The last dividend of €1.35 per share (from FY20 and FY19 earnings) constitutes a 5.8% yield, significantly above the 1.48% trailing 12-month yield of the index.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/20	12.7	3.0	1.28	1.35	18.1	5.8
12/21e	13.5	N/A	1.57	1.50	14.8	6.5
12/22e	14.0	N/A	1.37	1.30	16.9	5.6
12/23e	14.4	N/A	1.41	1.35	16.5	5.8

Source: DGA accounts, Refinitiv consensus as at 8 September 2021. Note: Consensus estimates are based on one analyst only (GBC).

Price	€23.2
Market cap	€37m

#### Share price graph

#### Share details

Code	DGR
Listing	Deutsche Börse Scale
Shares in issue	1.6m
Last reported net cash at 30 June 2021	€2.6m

#### 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 COVID-19 and economic downturn.
- Highly competitive environment.
- High risk of a property market bubble.

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## H121 financials: Healthy bottom-line expansion

DGA continues to increase its trading volumes, reporting a record-high turnover from auctions and agency sales of €86.3m in H121 versus €59.8m in H120. This improvement was a result of favourable price dynamics and a higher sales completion rate, with 90.1% of offered real estate sold for an average €126k per property (versus 88.7% and €86k, respectively, in H120), as the number of assets sold declined slightly y-o-y to 685 from 697. Notably, just five disposals executed within agency services offered by Plettner & Brecht Immobilien (a fully owned subsidiary) amounted to €4.6m versus €4.0m from eight in H120. This constitutes c 49% of the subsidiary's turnover and over 5% of the group-wide figure.

Management expects the group to sustain this positive momentum into Q321 as it targets c €40.7m in auction sales in the period based on current submissions. Having said that, we believe that this target is below the Q221 total of €48.6m and the €47.8m reported in Q320. The latter, however, includes €9.9m from the one-off auction of properties located in Berlin. The positive developments over H121, together with healthy forecasts for the next three months, resulted in management's upward revision of its annual auction trade volume target from €112.7m to €135m. Assuming the 90% completion rate holds in Q321, this guidance might be considered conservative, as over 90% of it could be realised by the end of September.

DGA reports under German Accounting Standards (HGB) and is, therefore, not obliged to publish consolidated financial statements for the group. The parent company reports standalone figures with a single line item, representing the pre-tax results of five fully owned subsidiaries. Since its share in the aggregate group turnover from auctions in H121 was just 37%, a detailed top-down analysis of the income statement provides limited information about the group's overall revenue and earnings position. Having said that, we surmise its regressive commission scale further compressed the rate to 8.7% in H121 from 9.6% in H120, as DGA group's revenue reached €7.6m (€5.8m in H120). This resulted in €2.3m pre-tax profit (versus €1.3m in H120), with €1.6m attributable to its subsidiaries. The group's net profit was €1.5m in H121 (an 82.3% y-o-y increase), which translates into EPS of €0.96 (versus €0.53 in H120).

### Exhibit 1: Financial highlights

in €'000, unless stated otherwise	H121	H120	change y-o-y
Turnover from auction* sales in €m (group)	86.3	59.8	44.3%
Net commission in €m (group)	7.55	5.76	31.1%
Net commission rate (group)	8.7%	9.6%	-88 bps
<b>Revenue (parent)</b>	<b>3,040.0</b>	<b>2,885.8</b>	<b>5.3%</b>
Other operating income	128.7	133.7	-3.7%
Material costs	(49.4)	(38.2)	29.3%
Labour costs	(1,129.5)	(954.2)	18.4%
Other operating costs	(1,238.9)	(1,281.1)	-3.3%
Depreciation / interest etc	(85.0)	(101.6)	-16.4%
<b>Parent company profit</b>	<b>666.0</b>	<b>644.4</b>	<b>3.4%</b>
<b>Profit / losses from subsidiaries, of which:</b>	<b>1,592.3</b>	<b>607.3</b>	<b>162.2%</b>
Sächsische Grundstücksauktionen	583.4	473.3	23.3%
Westdeutsche Grundstücksauktionen	534.2	0.4	NM
Norddeutsche Grundstücksauktionen	360.7	39.9	805.0%
Plettner & Brecht Immobilien	108.3	26.2	312.8%
Deutsche Internet Immobilien Auktionen	5.8	67.5	-91.4%
<b>Pre-tax profit</b>	<b>2,258.3</b>	<b>1,251.6</b>	<b>80.4%</b>
Income and other taxes	(715.2)	(405.2)	76.5%
<b>Net profit</b>	<b>1,543.1</b>	<b>846.4</b>	<b>82.3%</b>

Source: DGA accounts. Note: \*Includes €4.6m from agency sales.

In H121, DGA (the parent company only) reported €3.0m in total revenue from auction sales turnover of €32m and property management services (18 buildings with 369 flats, with a combined 26k sqm of leasable space). The c 5.4% y-o-y increase in operating costs, driven by higher personnel expenses (26 employees as at end-June 2021 versus 24 at end-June 2020), led to the

company recording a 3.4% y-o-y increase in pre-tax profit to €0.7m. This implies a c 22% margin, slightly below the 30% recorded by the whole group.

## Performance is improving across regions

Healthy demand for real estate across Germany fuelled a well-balanced expansion in turnover for the parent company and its subsidiaries. DGA's share in the group total declined to 37% in H121 from 44% in H120, despite the c 21% y-o-y increase in volume. The parent's client structure is based on transaction turnover, including private and institutional landowners, with 81% share (versus 70% in H120) and government institutions with 16% (28%). Insolvency administrators and inheritance trustees account for the remaining 3%. We believe this structure is broadly similar across the group, as in H121 DGA reported €12.5m in turnover on behalf on government bodies, which constitute 14.5% of the group total.

**Exhibit 2: Breakdown of auction sales turnover by subsidiary**

Subsidiaries performance	Sales volume (€m)			Properties sold		
	H121	H120	y-o-y	H121	H120	y-o-y
Deutsche Grundstücksauktionen (parent)	32.0	26.5	20.8%	130	132	-1.5%
Westdeutsche Grundstücksauktionen	16.6	5.0	228.8%	51	41	24.4%
Sächsische Grundstücksauktionen	16.5	12.0	36.8%	168	191	-12.0%
Norddeutsche Grundstücksauktionen	9.8	5.0	94.6%	74	72	2.8%
Plettner & Brecht Immobilien	9.4	9.3	1.1%	72	64	12.5%
Deutsche internet Immobilien Auktionen	2.1	1.8	12.0%	190	197	-3.6%
<b>Total</b>	<b>86.3</b>	<b>59.8</b>	<b>44.4%</b>	<b>685</b>	<b>697</b>	<b>-1.7%</b>

Source: DGA accounts

**Westdeutsche Grundstücksauktionen** rebounded well from exceptionally weak H120 results with the second largest contribution to group turnover in H121. We believe this unit was the most affected by the pandemic, as one of its auctions had to be carried out on **Deutsche Internet Immobilien Auktionen's** platform. The over-threefold y-o-y improvement resulted from significantly larger properties sold, as the number of objects auctioned in the period increased from 41 to 51 in the period. We believe the subsidiary has also increased its completion rate, which in FY20 fell to just 77.6% (versus the group average of 90.1% in H121); however, DGA has not provided any data. Meanwhile, the third-largest contributor to group turnover (€16.5m), **Sächsische Grundstücksauktionen**, recorded a 96% completion rate in Q221, which could be the reason for its higher profitability and the largest share in the group's pre-tax profit among the subsidiaries (€0.6m and 26% share). Furthermore, **Norddeutsche Grundstücksauktionen** almost doubled trade volume in H121 versus H120, while selling broadly the same number of properties (74 vs 72).

## Single asset sales pick up ahead of portfolio trades

According to JLL, in H121, total investment volume in the German real estate market declined y-o-y by c 20% to €34.1bn, with the decrease fully attributable to Q121 (€16.6bn versus €27.9bn) as it is compared with the robust Q120, which was the last pre-pandemic quarter. The Q221 investment volume of €17.5bn was 21% higher than in the corresponding period last year. However, the first two quarters of 2021 both sit below the five-year quarterly average of €19.4bn. Having said that, the market outlook is favourable from DGA's perspective, as the declines in investment volume are mainly attributable to large portfolio transactions (down 53% y-o-y) rather than single asset sales, which is the main scope of the company's business model (up 25% y-o-y).

As market uncertainties surrounding the new COVID-19 variants persist, the resilient 'living' sector (including residential, student housing and micro living) continues to see the highest demand, with €11.9bn in transactions in H121 (35% share) according to JLL's research. However, in Q221 alone, the living sector's share of overall trade volume in the broad German real estate investment market

fell to 25% and ranked second to the office segment (c 34% share), which is returning to the pre-pandemic investment market structure.

## Valuation

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DGA's share price has increased by almost 40% ytd, reaching €23.2 as at close on 9 September. With the last dividend payment amounting to €1.35 per share based on both FY20 and FY19 earnings (only 49% of FY19 net profit was distributed last year as part of management's conservative approach to uncertain market developments during the pandemic), the dividend yield sits at a healthy 5.8%. It significantly exceeds the 1.48% 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. For the LTM earnings figure to end-June 2021, DGA is trading on a P/E ratio of 13.5x, which is 34% above the index's multiple of 10.1x. According to Refinitiv consensus, based on the estimates of one analyst, DGA's EPS could reach €1.57/share in FY21e (versus €1.72 recorded on an LTM basis), which would bring the P/E multiple to 14.8x, and €1.37/share in FY22e, implying a P/E multiple of 16.9x.

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