

Deutsche Grundstücksauktionen

Real estate
18 September 2018

Well-positioned

Deutsche Grundstücksauktionen (DGA) has improved even on an 'outstanding' H117 comparative, with the highest first-half gross turnover and net commission for more than a decade and net profit up c 60% in H118. While the driver (a record lot sale of €15m, almost a quarter of total gross turnover) was arguably exceptional, the offer of further high-value lots is not wishful thinking, given DGA's good relationship with the Federal Bundesanstalt and excellent publicity as a reference sale. Indications of positive imminent Q3 auctions support guidance of a stable second half and thus forecasts of a bumper dividend (prospective 5.2% yield).

H1 step-change...again

DGA has shown that H117 (a trebling of profit on 40% higher auction proceeds) was not an impossible act to follow. In the half to June, gross turnover rose by 12% at an almost maintained net commission rate (9.5%), which is impressive, given the mix of lots sold (average sales price up 20%). By contrast, the comparative's net commission rate fell sharply from 11.4% in H116 also in the face of marked price appreciation. Profit conversion was strong, eg up c 60% at the net level and EBITDA margin 22% vs 16% y-o-y. Thanks to the bumper disposal the parent company, which bears central costs, was unusually profitable but was substantially offset by a virtual elimination of the subsidiaries' contribution as their gross turnover fell by a quarter, mainly owing to price rather than volume. Regional and quarterly volatility, if acute in the period, is characteristic of DGA and, happily, performances tend, as here, to compensate for each other. Finances remained robust.

Holding firm

Management has reaffirmed positive fundamentals for the business, notably interest rates, disposable income and employment. These are evident in favourable signs for its imminent Q3 auctions, where confirmed deliveries and high demand underpin its confidence about matching the €31m proceeds of Q316, ie c 25% up y-o-y. Guidance of maintained gross turnover and net commission in H218 therefore appears reasonable and fairly reflected in consensus forecasts, shown below.

Valuation: High-yielding

While a flying start to the year may have raised ambitious investor expectations, a substantially higher 2018 dividend remains very much on the cards. A prospective yield of 5.2% is well ahead of that of the small-cap market (no direct listed peer).

Consensus estimates

Year end	Net commission (€m)	Net profit (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	10.6	1.17	0.73	0.72	23.6	4.2
12/17	11.2	1.22	0.76	0.77	22.6	4.5
12/18e	11.7	1.51	0.94	0.95	18.3	5.5
12/19e	11.5	1.45	0.91	0.90	18.9	5.2

Source: Company accounts, consensus estimates

Price €17.20
Market cap €28m

Share price graph



Share details

Code	DGR
Listing	Deutsche Börse Scale
Shares in issue	1.6m
Net cash at June 2018	€4.2m

Business description

Deutsche Grundstücksauktionen is market leader in the auctioning of properties in Germany. The company was founded in Berlin in 1984.

Bull

- Sustained demand for property thanks to favourable economic and interest rate outlook.
- Clear market leader with experienced management and wide client base.
- Sound finances, allowing generous, unbroken dividend record.

Bear

- Macroeconomic uncertainties; rising interest rates would diminish yield appeal of property.
- Intensely competitive.
- Potential supply shortage as a result of excess demand and unrealistic seller expectations.

Analyst

Richard Finch +44 (0)20 3077 5700

financials@edisongroup.com

[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Review of H118 results

The financial statements are in accordance with HGB. DGA, the parent company, is influenced to a considerable extent by the results of its fully owned subsidiaries, but is not obliged to present consolidated accounts and management reports. As a result of profit transfer agreements with its five subsidiaries, the total result of the group is therefore shown in the statements of the parent company.

Consequently, for the sake of clarity we show (shaded below) both gross turnover (auction sale proceeds) and net commission at the group level, as these drive the transferred profits. They are also regarded by management as key indicators. However, they are, of course, only proxies for the subsidiaries' revenue, which is not disclosed, so accurate top-line analysis is not possible.

Exhibit 1: Analysis of revenue and profit					
€m, HGB		H117	H217	FY17	H118
Group:					
Turnover from auction sales		57.10	59.50	116.60	63.80
Change (%)		+40%	Flat	+16%	+12%
Net commission		5.49	5.67	11.16	6.07
Rate (%)		9.6%	9.5%	9.6%	9.5%
Change (%)		+18%	-5%	+5%	+11%
Revenue + other operating income		2.39	2.35	4.74	3.44
EBITDA		0.90	1.04	1.94	1.33
Margin		16.4%	18.3%	17.4%	21.9%
Parent company profit		(0.11)	0.20	0.09	1.14
Profit from subsidiaries		0.94	0.76	1.70	0.12
Pre-tax profit		0.83	0.98	1.81	1.26
Net profit		0.56	0.66	1.22	0.89
Source: DGA accounts					

The half to June comfortably surpassed a comparative, which was a success by any measure. As shown in Exhibit 1, a double-digit percentage rise in turnover from auction sales (impressive in itself) was all but maintained in terms of net commission (up 11%). This is creditable as a 20% higher average lot sales price (€79,000) would drive significantly lower as well as potentially negotiable rates. The impact at the bottom line was yet more marked with EBITDA up by almost a half and net profit up even more sharply (c 60%).

While this composite view is indeed satisfactory, it is worth considering the contribution of the commercial property in Berlin-Marzahn, whose €15.2m auction proceeds in Q1 were a record for the company and singly accounted for the H1 gains, ie overall gross turnover c 15% lower for the half, if excluded. While the scale of this transaction (more than twice that of the previous record €7m in Q417) may be regarded as exceptional, DGA's very ability to generate such a deal is testimony to its good long-term relationship (exclusive contract until 2020) with the Bundesanstalt, which looks to sell assets no longer required by the federal government and its companies. Similarly, DGA's ability to execute endorses the use of the auction channel for such substantial items and serves as a reference sale in the valuable Berlin market. Admittedly infrequent, such high-value items should thus arguably be viewed as an inherent part of DGA's business, if not necessarily assumed in forecasts (their occurrence is effectively a bonus).

We highlight also the disparity in geographical performances in H1. Buoyed by its premium lot, Berlin, in the guise of DGA's parent company, comfortably more than made up for a shortfall in the regions and in the online business (see Exhibit 1). In particular, Sächsische, second in size to the parent company, is usually resilient but in the period a 33% decline in gross turnover resulted in a move into loss. Management attributes this simply to a temporary supply of below-trend, low-ticket items (average sales price down by a third). The disclosure of performance by individual auction house (and indeed by quarter) risks misleading short-term extrapolation. DGA's record shows innate volatility at that level tends to even out over time.

H2 reassurance

Management confidence about imminent Q3 auctions (20 and 21 September) spurs its H2 guidance of a maintained y-o-y outturn at the top line. Current high demand for real estate in Germany, an increase in lot deliveries (by early September) and a known auction catalogue point in its view to a likely repeat of Q316's €31m gross turnover, which would be a c 25% rise on a relatively subdued Q317. This would be welcome after the 13% y-o-y reduction in Q2 and further evidence of DGA's ability to adjust to short-term volatility. Q4 auctions are traditionally less significant than those of Q3, but last year's (gross turnover up by 15%) was boosted by another high-value lot (€7m) in the Berlin area. Q3 auction sales will be announced in early October.

Balance sheet and cash flow

Finances remain sound with €4.2m net cash at June 2018. Surplus cash (the company has no debt) allows profit to be distributed almost entirely by way of dividend. Management is justifiably proud of its dividend record and well aware of investor demand for attractive dividend yield at a time of low interest rates.

Valuation

With no direct peer listed on the Frankfurt Stock Exchange, we look at the iShares MSCI Germany Small-Cap ETF, which seeks to track the investment results of an index composed of small-cap German equities. This shows a historical P/E ratio of 14.4x (DGA 23x) and 12-month trailing yield of 2% (DGA 4.5%). As noted above, the history of a sustained and attractive dividend should lend support to the shares.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Any information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.