

ÖKOWORLD

Asset management

16 June 2017

Strong 2016 results lead to dividend hike

ÖKOWORLD (ÖWAG) reported strong 2016 results. The operating business environment was challenging, mainly due to high volatility in the relevant SRI financial market segment, but the group's net earnings were strong, boosted by €3.6m in dividend income from its holdings in subsidiaries. These more than compensated for a €2.9m decline in performance fee income. Cost cuts of €600k also contributed to a €1.6m increase in net profits to €4.6m. ÖWAG increased the dividend to 51 cents (+13%).

Participation income saves 2016 results

Overall, revenues slipped 27% to €9.2m, leading to a 44% decline in gross profits to €4.7m. EBITDA fell by 64% to €1.7m. Although personnel costs were cut by €600k, this did not compensate for the decline. However, first time dividends paid by the subsidiaries versiko (€750K) and Ökoworld Lux SA (€2.8m) resulted in an 11% increase in pre-tax profits to €5.1m, while a lower tax rate (dividends are taxed at a lower rate than operating income) boosted net profits by 35%.

Performance fee income remains an issue

While the main fund (c 70% of AUM) Ökoworld Classic ended the year with a positive performance of 3.37%, other ÖWAG funds closed the year slightly lower. The 'Garant 20' fund will no longer be actively offered. In particular, the election of US President Donald Trump and his anti-environmental approach (eg leaving the Paris climate accord) could have a negative effect on funds such as ÖWAG that are run under strict SRI principles.

Positive newsflow in 2017

SRI is gaining acceptance in the German institutional landscape: a nationwide index by Stuttgart University and UNION measuring the acceptance of SRI criteria gained 10pp to 19.4 points in 2017. This should boost AUM for ÖWAG, which were up 10% vs year end 2016 to €925m by the end of March largely due to better fund performance. In addition, a newly introduced 'follow-up' premium in insurance business should lead to rising insurance premium income.

Valuation: Share price moderately higher

Year to date, ÖWAG shares are modestly higher. In addition, it has a dividend yield of 4.1%. Dividend income from subsidiaries tends to reduce the year-on-year volatility of net income.

Historical financials						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/13	9.2	2.3	0.30	0.36	41.3	2.9
12/14	10.3	3.7	0.42	0.40	29.5	3.2
12/15	12.7	4.6	0.44	0.45	28.1	3.6
12/16	9.2	5.2	0.60	0.51	20.6	4.1

Source: ÖKOWORLD accounts, Bloomberg

Price €12.38
Market cap* €101m

*Market cap. based on 8.15m shares issued, but only 3.95m preference shares listed on the stock market.

Share price graph



Share details

Code VVV3.GY/VVGN.p.DE
 Listing Deutsche Börse Scale
 Shares in issue 3.95m
 Last reported net cash as at 31 December 2016 €3.7m

Business description

ÖKOWORLD is the listed holding company for asset management, insurance brokerage and advisory services. It is one of Germany's pioneers in SRI and ethical-ecological investment advisory, with its nucleus reaching back to 1975. It preserved its successful core investment principles and reached €925m AUM in March 2017.

Bull

- A strong brand with established distribution channels and constant AUM growth.
- SRI investments become mainstream with more companies following SRI rules.
- Cost cuts and participation boost net profits.

Bear

- Despite long history still relatively low AUM.
- Strong dependency on German market.
- Only preference shares available to investors.

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Financials: FY16 results released

The 2016 balance sheet shows little change from the previous year. Non-current assets remained at c €8m, of which €7.1m is stakes in subsidiaries, in particular the operating insurance broker versiko and the Luxembourg based fund subsidiaries, which paid relatively high dividends to ÖWAG in 2016. On the current asset side, ÖWAG was able to reduce receivables by more than 50% to €2.2m. Another positive effect from the dividend payments is a 37% increase in cash to €8.8m. Cash therewith represents 44% of the balance sheet total, up from 32% in 2015.

Equity rose 9.5% to €14.5m in 2016, equal to 73% of the balance sheet total, largely due to higher profits in the year. Liabilities remained at 2015 levels, mainly comprising pension accruals, which increased by €70k to €3.3m (65% of total liabilities). The strong increase in cash and the stabilisation of debt resulted in a net cash position by the end of 2016 of €3.7m (€828k in 2015).

On the P&L side, market volatility resulted in a €2.9m (-85%) decline in performance fee income, which resulted in revenues falling from €12.7m in 2015 to €9.2m in 2016. ÖWAG's funds only generate a performance fee for ÖWAG if they pass the previous highest price level (high watermark). After a difficult start to the year (H116 revenues €3.95m, -48% y-o-y, net profits €1.59m, -37% y-o-y), cost cuts and the dividend payments pushed net profits to €4.6m. Excluding the dividend income, pure net operating profits were a third of last year's net results of €3.4m, assuming a tax rate equal to 2015, ie 26%.

While the flagship fund 'Ökoworld Classic' ended the year with a positive performance (+3.37%), other funds did not, leading to the decline in earned performance fees. Also 'other income' declined by more than €1m, chiefly as the 2015 position (€1.3m) contained €0.8m in income from an asset sale. A €600k decline in salaries as part of ÖWAG's optimisation efforts failed to compensate for the decline in overall revenues. Consequently, EBIT fell from €4.7m in 2015 to €1.6m in 2016. The main earnings driver for ÖWAG was the emergence of dividend payments from versiko and Ökoworld Lux SA: here, ÖKÖ recorded dividend income of €3.6m vs zero in 2015. This led to an 11% increase in pre-tax profits to €5.2m. ÖWAG will increase the dividend per listed preference share to €0.51 (€0.45).

Exhibit 1: Financial summary

	€000s	2011	2012	2013	2014	2015	2016
Year end 31 December		HGB	HGB	HGB	HGB	HGB	HGB
Income statement							
Revenue		8,171	8,115	9,229	10,324	12,687	9,222
Profit Before Tax (as reported)		1,545	2,092	2,342	3,743	4,635	5,151
Net income (as reported)		1,547	2,096	2,311	3,260	3,419	4,620
EPS (as reported) – (€)		0.19	0.27	0.30	0.42	0.44	0.60
Dividend per pref share (€)		0.27	0.36	0.36	0.40	0.45	0.51
Balance sheet							
Total non-current assets		8,139	9,298	9,050	9,236	7,907	7,694
Total current assets		10,213	8,285	8,051	9,738	11,607	12,083
Total assets		18,371	17,610	17,115	19,004	19,555	19,806
Total non-current liabilities		4,052	4,086	3,402	4,158	5,017	4,595
Total current liabilities		1,000	942	1,258	1,367	561	501
Total liabilities		5,052	5,028	4,660	5,525	5,578	5,096
Net assets		13,319	12,582	12,455	13,479	13,977	14,710
Shareholders' equity		13,319	12,582	12,420	13,314	13,807	14,542
Cash flow statement							
Net cash from operating activities		1,332	2,913	2,433	3,563	5,404	2,595
Net cash from investing activities		-208	-762	3	-336	1,942	3,664
Net cash from financing activities		-369	-2,833	-2,474	-2,365	-2,926	-3,884
Net cash flow		755	-682	-38	862	4,420	2,375
Cash & cash equivalent end of year		1,844	1,162	1,124	1,986	6,406	8,781

Source: ÖWAG annual reports 2011-16. Note: HGB = German GAAP.

Valuation

ÖWAG's market cap is c €101m and its enterprise value (EV) is c €97m. The company has >€900m in assets under management (AUM) and achieved an ROE of 32% in 2016. Based on 2016 EPS, ÖWAG trades at a P/E of c 20x, around 30% below the sector average of 30.4x (source: Reuters, sector: Investment Management & Fund Operators as of 30 May 2017). Also, ÖWAG's dividend yield of 4.1% is above the sector average of 2.2%.

We believe that the valuation of the company reflects the fact that the listed shares are non-voting preference shares, while the non-listed voting stock is in the hand of the management and selected employees. Peer group shares are mostly voting stock.

ÖWAG's potential stream of dividend income from its subsidiaries helps to smooth out volatile revenues from performance fees, which leaves the net income line relatively stable. These dividends are based on the decisions of the AGMs of the subsidiaries during ÖWAG's business year – where ÖWAG holds the majority. The ability to smooth its income stream appears not be fully reflected in the share price.

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