

## Corestate Capital Holding

### Organic growth coupled with M&A activity

Corestate's (CCAP) H117 results reflect strong organic growth assisted by an expanding investment platform (AUM at €3.5bn as of end-June 2017 vs €2.8bn as of end-FY16), good transaction volumes (€1.4bn from 11 transactions vs €0.2bn from 23 deals in H116) and a solid increase in client funds raised (€356.1m vs €52.6m). The recent large acquisitions of Hannover Leasing (HL) and Helvetic Financial Services (HFS) translate into an increase in AUM to c €20bn by end-2017. Consequently, management guides to FY17 adjusted EPS in the range of €5.14-5.44 (vs €1.47 in FY16). Corestate's shares are trading at a 2017e P/E multiple of just 10.5x, implying a 22% discount to the peer group.

### H117 results show strength across all business lines

Top line and earnings momentum was supported by the threefold increase in acquisition-related fees on the back of the transaction related to high street retail and residential asset-based investment products as part of the partnership with Bayerische Versicherungskammer (BVK). Growth in the recurring business was also healthy, with revenues from asset and property management improving by 45.4% y-o-y to €14.3m. Importantly, the split into recurring and success-based revenue stood at 64/36.

### Outlook revised following recent M&A deals

The company maintained its recently raised guidance for FY17 on the back of the acquisitions of HL and HFS. CCAP guides for aggregate revenues to reach €170-180m and an adjusted EPS of €5.14-5.44. The company expects AUM to reach €20bn by end-2017 following HL and HFS consolidation. The former allows Corestate to create a fully integrated asset and investment management platform across multiple real estate asset and investor classes (including office assets), while the latter adds a mezzanine financing offering to the company's product portfolio. These deals should also enable the company to meet the targeted share of recurring income of c 90% from 64% currently.

### Valuation: Still trading at a discount to peers

According to consensus estimates, CCAP trades at a 2017e P/E ratio of 10.5x, based on forecast EPS of €5.19, which is in line with management guidance. The dividend yield is set to be c 5% this year, and is expected to increase to 6% in 2018. The rising dividend yield makes the valuation even more attractive.

#### Consensus estimates

Year end	Agg revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	47.1	8.6	1.12	0.00	48.4	N/A
12/16	59.7	16.9	1.47	1.00	36.9	1.8
12/17e	169.3	93.4	5.19	2.60	10.5	4.8
12/18e	220.0	120.0	5.06	3.18	10.7	5.9

Source: Corestate accounts, Bloomberg consensus estimates

#### Real estate asset management

30 August 2017

**Price** €54.25  
**Market cap** €1,139m

#### Share price graph



#### Share details

Code	CCAP
Listing	Deutsche Börse Scale
Shares in issue	21.0m
Last reported net cash as at 30 June 2017	€16.9m

#### Business description

Corestate Capital Holding is a real estate investment manager and co-investor with c €20bn in assets under management. Its headquarters are in Luxembourg and it operates from 29 locations including Dusseldorf, Frankfurt, Madrid, Singapore and Zurich.

#### Bull

- Strong organic growth forecasts.
- HL and HFS transactions provide scale and range.
- Attractive yield and valuation.

#### Bear

- Execution risk from HL and HFS integration.
- Transaction and success fees support revenues.
- Management and admin fees limit profitability.

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## Financials: H117 results released

### Income statement

Corestate reported solid H117 results, with adjusted EBITDA almost quadrupling to €26.0m (from €6.8m in H116). EBITDA margin rose 23.2pp to 53.6% over the same period. Aggregate revenues and gains posted a 116% increase y-o-y, driven by expansion across all business lines. This was due to solid organic growth from the core residential and retail projects, fuelled by continued investment capital inflows and yield compression on the German real estate market. G&A expenses grew 155% y-o-y, and represented 18.0% of aggregate revenues and gains (vs 15.3% in H116). Total group expenses rose 64.8% y-o-y, as the property management business grew and the investment and institutional clients teams expanded. Adjusted EPS was €1.72 (vs €0.53 in H116), despite dilution from recent share issues, assisted by stable financial expenses and a lower effective tax rate (3.1% vs 23.2% in H116).

Revenue from real estate investment management nearly tripled y-o-y to €36.5m. This increase was mainly due to the substantial success-based promote fees realised (€13.1m vs a negligible figure last year) from the successfully placed high street retail, as well as the residential asset-based investment products as part of the partnership with BVK. Acquisition-related fees stood at €9.1m (H116: €3.1m) and were aided by the same BVK transaction. Revenues from Asset and Property Management grew by 45.4% y-o-y on the back of higher AUM. In conjunction with operating expenses in Real Estate Investment Management growing by 35% y-o-y, this resulted in a sharp rise in divisional earnings to €20.1m (compared to €0.6m last year).

Corestate also reported a considerable increase in the share of profit from associates and JVs related to the alignment capital management business (€5.3m compared to €1.0m in H116). In contrast, income from real estate operations/warehousing was €6.9m (down 21.2% y-o-y). As a result, the share of recurring revenues stood at just 64% (vs >90% in H116). Nevertheless, Corestate expects this ratio to be closer to 90% in the longer term following recent acquisitions and solid organic growth in the existing business.

### Balance sheet and cash flow

Corestate's AUM rose by 25.6% to €3.5bn from €2.8bn by the end of 2016. In January, the company acquired a micro-apartment asset with 179 units in Hamburg. In the high street retail business, it recently purchased 18 properties in selected mid-sized German cities. Furthermore, Corestate obtained an investment and asset management mandate in connection with the sale of retail portfolios, comprising 90 properties in Germany.

Net operating cash flow in H117 was €6.8m, down from €27.1m in H116 as a result of adverse movements in working capital, most notably an increase in inventories resulting from warehousing and higher trade receivables due to business expansion. Net cash as of 30 June 2017 reached €16.9m compared to net debt of €10.6m at the end of H116, which is predominantly the result of the share capital increases completed last year and in February 2017.

Exhibit 1: Results highlights			
€'000s	H117	H116	y-o-y change
Aggregate revenues and gains	48,596	22,491	116.1%
EBITDA (adjusted)*	26,034	6,823	281.6%
Adj. EBITDA margin*	53.6%	30.3%	23.2pp
EBIT (reported)	22,322	6,606	237.9%
EBIT margin	45.9%	29.4%	16.5pp
EPS (adjusted)*	1.72	0.53	224.5%
Source: Corestate accounts. Note: *Adjusted for one-off items, including costs for capital measures, corporate M&A related cost and share grant expenses, and costs for credit facilities provided by shareholders.			

**Exhibit 2: Divisional details**

€'000s	H117	H116	y-o-y change
<b>Real Estate Investment Management</b>			
Total revenue	36,476	12,744	186.2%
Revenue from acquisition related fees	9,073	3,129	190.0%
Revenue from asset and property management	14,263	9,806	45.4%
Revenue from sales fees	0	0	N/A
Revenue from promote fees realised	13,140	(191)	N/A
Total earnings from real estate investment management	20,125	629	N/M
<b>Alignment Capital Management</b>			
Share of profit or loss from associates and JVs	5,255	1,031	409.7%
Total earnings from alignment capital management	5,268	775	579.7%
<b>Real Estate Operations/Warehousing</b>			
Total income	6,865	8,715	(21.2%)
Total earnings from real estate operations/warehousing	5,930	8,631	(31.3%)

Source: Corestate accounts

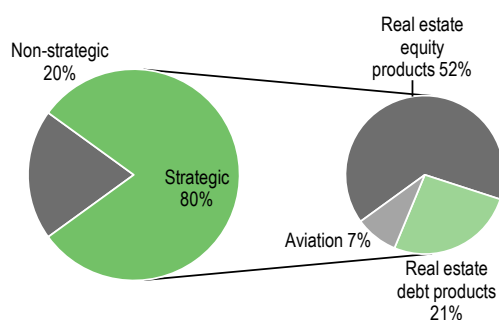
**Recent M&A deals not reflected in results**

H117 results exclude the acquisitions of HL and HFS. On 1 July 2017, the company acquired HL, an asset manager and provider of real asset investment in Germany offering closed-ended mutual AIFs (alternative investment funds). HL should add c €11.6bn of AUM to the group's portfolio by the end of 2017 (as per company guidance).

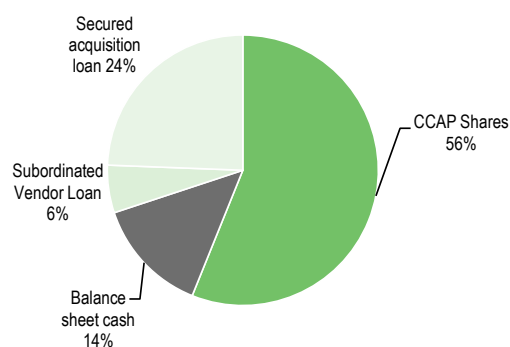
Furthermore, on 5 July, Corestate successfully completed the acquisition of HFS, a provider of mezzanine financing in the German residential and commercial real estate market for a consideration in the mid-three digit million euro range. According to the management, this deal will add around €4.3bn of AUM by the end of the year. The transaction is in line with the company's intention to expand its product offering, facilitates growth of its fund business and improves institutional investors outreach (HFS will add 60 clients to Corestate's customer base).

Total consideration for both transactions equals €615m and is financed with: 1) €345m from the issue of 7,365,256 new shares; 2) €150m from a secured acquisition loan; 3) €35m from a subordinated vendor loan; and 4) €85m from balance sheet cash (including a 12-month deferred portion of €39m under the HFS transaction).

Following completion of the acquisitions, CCAP expects aggregate revenues and gains to reach €170-180m, EBITDA of €115-120m, net profit at €85-90m and EPS of €5.14-5.44 (excluding one-off items such as M&A expenses).

**Exhibit 3: AUM after transactions 2017e**


Source: Corestate's IR presentation

**Exhibit 4: HL and HFS deal financing**


Source: Corestate's IR presentation

## Valuation

Consensus estimates for Corestate have increased significantly since our [initiation report](#) released in May, reflecting the positive impact of the HL and HFS acquisitions. Consensus for 2017e EPS now stands at €5.19 and is in line with management guidance (€5.14-5.44). The share price has increased 135% year to date and 35% since we last published.

We have compared CCAP to its German real estate fund management peers. As shown in the table below, CCAP now trades at a 22% discount to its peers on 2017e P/E. Importantly, CCAP has a higher dividend yield than almost all its peers. Pubility is the outlier here, but even if we include it in the average, CCAP's yield remains higher than those of its other peers, at 4.8% for this year and 5.9% for 2018e.

**Exhibit 5: Peer group comparison**

	Market cap (m)	PE (x)			Dividend yield (%)		
		2017e	2018e	2019e	2017e	2018e	2019e
Patrizia	€1,396.2	23.1	18.7	16.5	1.3	1.8	2.1
Pubility	€236.7	6.0	5.3	4.5	8.3	9.5	11.2
VIB Vermogen	€573.9	13.6	12.7	12.0	2.7	3.1	3.4
WCM Beteiligungs	€430.2	10.9	11.4	10.2	3.5	4.0	4.3
<b>Peer group average</b>		<b>13.4</b>	<b>12.0</b>	<b>10.8</b>	<b>3.9</b>	<b>4.6</b>	<b>5.2</b>
<b>Corestate Capital</b>	<b>€1,141.3</b>	<b>10.5</b>	<b>10.8</b>	<b>10.1</b>	<b>4.8</b>	<b>5.8</b>	<b>6.5</b>
Premium/(discount) to peer group		(22%)	(10%)	(7%)	(18%)	(21%)	(20%)

Source: Bloomberg. Note: Pubility multiples are calculated based on the average of forecasts from Baader Bank and Quirin Bank (as per Bloomberg). Prices as at 15 August 2017.

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