

## Deutsche Grundstücksauktionen

Real estate

11 September 2017

### From strength to strength

Deutsche Grundstücksauktionen (DGA) continues to please with an “outstanding” H1, epitomised by the highest first-half gross turnover and net commission for a decade and a trebling of net income. No less encouraging is management’s confidence about the seasonally stronger H2 with a likely repeat of last year’s bumper autumn auctions and sustained favourable macro factors. Robust finances (debt-free) and a proven model should ensure that the company’s enviable dividend record is maintained.

### H1 step-change

By any measure the half to June was a success, even if the comparative was relatively subdued. A 40% rise in turnover from spring and summer auction sales delivered a threefold increase in EBITDA, pre-tax profit and net income. Profit conversion would have been yet higher but for a lower net commission rate, reflecting the mix of lots sold (average sales price up an exceptional 42%), fee-sharing in the brokerage business and an elevated H116 level. All five subsidiaries improved profit, including a marked pickup by Norddeutsche and Westdeutsche, while the parent company’s continued but reduced loss was due simply to its effective status as a holding company with associated central costs. Despite a slight reduction, the lot selling quota remained reassuringly high at 84%.

### 2017 optimism maintained

Management has reaffirmed positive fundamentals for the business, notably interest rates, disposable income and employment. To that we should add demographic advantages such as supply shortages, a rising population and internationally low homeownership. Given gross turnover of €57m in H1 and likely c €30m from its imminent autumn auctions, the company’s stated FY17 target of the average of the last three years, ie €103m or +3%, looks cautious ahead of winter auctions, which tend not to lag materially its peak autumn proceeds.

### Valuation: Yield appeal

With no direct listed peer and a lack of consensus forecasts, we look at the iShares MSCI Germany Small-Cap ETF, which shows a historical P/E of 18x (DGA 22x) and yield of 1.5% (DGA 4.4%). Notwithstanding caution ahead of a key trading period, the aforementioned strengths may well allow guidance to be exceeded and thus an even more generous dividend in line with the company’s full payout policy.

#### Historical financials

Year end	Net commission (€m)	PBT (€m)	EPS (€)	DPS (€)	EV/EBITDA (x)	Yield (%)
12/13	9.2	0.86	0.37	0.39	25.1	2.4
12/14	10.4	1.61	0.66	0.65	13.9	4.0
12/15	10.3	1.65	0.71	0.70	12.6	4.3
12/16	10.6	1.76	0.73	0.72	12.4	4.4

Source: Company accounts

Price €16.35

Market cap €26m

#### Share price graph



#### Share details

Code	DGR
Listing	Deutsche Börse Scale
Shares in issue	1.6m
Net cash (€m) at 30 June 2017	2.8

#### Business description

Deutsche Grundstücksauktionen (DGA) 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 a 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.

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## Review of H117 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

Year end December (€m), HGB	H116	H216	FY16	H117
<b>Group:</b>				
Turnover from auction sales	40.80	59.48	100.28	57.10
Change (%)	-9%	-1%	-5%	+40%
Net commission	4.64	5.95	10.59	5.49
Rate (%)	11.4%	10.0%	10.6%	9.6%
Change (%)	Flat	+5%	+2%	+18%
Revenue + other operating income	1.88	2.28	4.16	2.39
EBITDA	0.31	1.51	1.82	0.90
Parent company profit	(0.18)	0.24	0.06	(0.11)
Profit from subsidiaries	0.45	1.25	1.70	0.94
Pre-tax profit	0.27	1.49	1.76	0.83
Net income	0.17	1.00	1.17	0.56

Source: DGA accounts

The half to June saw a sharp pickup (+40%) in auction sale proceeds after two years of consolidation, albeit at a high level (c €100m pa). Indeed Q2 summer auction activity (+43%) showed acceleration even on a flying start to the year (+36%). The performance of individual auction houses is inevitably volatile but they tend to compensate for each other, as evident in the subsidiaries' composite performance (+28% in H1). For example, Westdeutsche stole the show in Q1 but dipped on a demanding comparative in the following quarter. Both Sächsische and the internet business had record turnover in Q2, while the parent company was up a remarkable 62%.

However, net commission (effectively revenue in terms of company accounts) was up less extravagantly at +18%. This largely reflected the mix of lots sold (average sales price up almost a half at €66,000) and consequently rates, which were significantly lower and indeed potentially negotiable. Exhibit 1 shows also that the overall H116 rate was somewhat higher than average at 11.4%.

The trebling of EBITDA in the period is testimony to the successful profit performance of the subsidiaries (doubled) and reduced loss by the parent company, which singly absorbs central costs.

## H2 momentum maintained

In the absence of consensus forecasts, we rely on reported management guidance. This remains upbeat for the full year as following H1, which exceeded its expectations, no change is seen in positive macro factors and specifically the key autumn auctions, which are imminent, look set at least to match the "terrific" autumn quarter last year, which saw the second best quarterly turnover since 2007. If this is indeed achieved, then c €30m in Q3, added to €57m in H1, would suggest that management's goal of reaching the average gross turnover of the last three years ie €103m, should be met comfortably, given the importance of Q4 and benefit of unbroken high demand and the growth potential of key clients.

## Balance sheet and cash flow

Finances remain sound with €2.8m net cash at June 2017. 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

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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 18x (DGA 22x) and 12-month trailing yield of 1.5% (DGA 4.4%). As noted above, the history of a sustained and attractive dividend should lend support to the shares.

Given that we are not producing our own forecasts or model, using a DCF has too much subjectivity to be of much value.

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