EDISON

# Scale research report - Update

# ÖKOWORLD

Asset management

12 September 2017

## AUM approaching FY17 target

**ÖKOWORLD (ÖWAG) reported healthy growth in H117, with sales and operating profit more than doubling year-on-year despite the lack of dividend payments from affiliated companies (€1.6m in H116). AUM continues to increase and currently stands at €970m (up 4.8% vs end-March), approaching the €1.0bn threshold that ÖWAG intends to surpass in FY17. To date, the flagship Ökovision Classic fund posted returns of 6.7% (C-shares) and 5.2% (A-shares). ÖWAG's shares rallied 27% ytd and are now trading at a premium of 4% and 27% on P/E and EV/EBITDA for FY17e, respectively.**

## H117 results driven by core SRI business

ÖWAG posted 127.3% y-o-y growth in EBIT to €4.0m (based on Edison calculations) and an EBIT margin improvement of 503bps to 49.1%, supported by top-line growth of 104.0% y-o-y. Net income increased to €3.0m translating into an LTM ROE of 37.6% (compared with 32.6% in FY16). Equity as a percentage of the balance sheet total reached 76% (vs 73% at end-2016) and company's cash position stood at €12.6m compared with €8.8m in FY16.

## AUM getting closer to FY17 target

So far ÖWAG's flagship Ökovision Classic fund (representing 73% of total AUM) posted returns of 6.7% (C-units) and 5.2% (A-units). The Growing Markets 2.0 fund did much better, generating returns of 12.8% (C-shares) and 13.4% (D-shares) ytd. This compares with 14.7% ytd return of MSCI World ESG Universal net return index and 12.2% in the case of the broader MSCI World Index (though we understand that these indices should not be strictly considered benchmarks for ÖWAG's funds). Aggregate AUM reached €970m as of 8 September (based on our calculations) vs €925m at end-March, bringing the company closer to the FY17 target of >€1.0bn.

## Valuation: Premium following recent share price rally

Following the 27% price rally ytd, ÖWAG's shares trade at a 4% and 27% premium on P/E and EV/EBITDA ratios for FY17e, respectively. The market expects moderate earnings growth over the two subsequent years (EPS and EBITDA growth of 6-7% per annum as per Bloomberg consensus). Consequently, the shares trade at an even higher premium on FY18e and FY19e numbers. Still, ÖWAG offers an attractive dividend yield of c 4%, above the peer average.

**Consensus estimates**

| Year end | Revenue (€m) | PBT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 12/15 | 12.7 | 4.6 | 0.44 | 0.45 | 30.5 | 3.4 |
| 12/16 | 9.2 | 5.2 | 0.60 | 0.51 | 22.4 | 3.8 |
| 12/17e | 18.6 | 5.7 | 0.64 | 0.54 | 21.0 | 4.0 |
| 12/18e | 19.5 | 6.1 | 0.68 | 0.54 | 19.7 | 4.0 |

Source: ÖKOWORLD accounts, Bloomberg consensus estimates as at 8 September 2017

**Price** €13.42

**Market cap** €100m

*Market cap based on 7.43m total shares issued (after deduction of treasury shares); only 3.44m non-voting preference shares listed on the stock market.

### Share price graph


### Share details

| | |
|---|---|
| Code | VVV3 |
| Listing | Deutsche Börse Scale |
| Shares in issue (non-voting preferred) | 3.44m |
| Last reported net cash as at 30 June 2017 | €12.6m |

### Business description

ÖKOWORLD is a 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 has preserved its successful core investment principles and reached AUM of €970m as of 8 September 2017.

### Bull

- A strong brand with established distribution channels and constant AUM growth.
- SRI investments have become mainstream with more companies following SRI rules.
- Proven track record and numerous awards.

### Bear

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

### Analyst


Milosz Papst +44 (0) 20 3077 5700

financials@edisongroup.com

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# Financials: H117 results released

## Income statement

ÖWAG reported strong H117 numbers, with EBIT growing by 127.3% y-o-y to €4.0m on the back of a strong sales increase of 104.0% to €8.1m compared with H116. Solid momentum was driven in particular by the performance of the investment trust Ökoworld LUX SA, which executes the SRI-driven fund management within the group. EBIT margin improved by 503bps to 49.1%, following a year-on-year decline in cost of services of 18.2% and a less pronounced increase in other cost items, such as personnel expenses (up 66.9% vs H116), and other operating expenses (an increase of 23.1% y-o-y). D&A remained broadly stable at €0.07m. The company did not receive any dividends from affiliated companies in H117, while collecting €1.6m a year ago. Net interest income was close to null compared to €0.04m in H116, translating into EBT of €4.0m (vs €1.8m last year). The effective tax rate stood at 23.9% and was higher than in H116 (10.9%), as the dividends received last year were taxed at a lower rate. As a result, net income improved by 89.8% y-o-y to €3.0m, which implies an LTM ROE of 37.6% (ahead of 32.6% in FY16).

## Balance sheet

ÖWAG continued to execute its buyback program launched in 2015 and repurchased 257,276 shares in H117. As 512,276 treasury shares became subject to capital reduction, the outstanding balance of treasury shares as of end-June stood at 208,335, representing 2.73% of the company's share capital. Equity as a percentage of the balance sheet total reached 76% compared with 73% at end-2016, which was the result of a strong rise in net profit. Importantly, ÖWAG's cash position improved considerably to €12.6m in H117 (57% of the balance sheet total) from €8.8m (44%) in FY16.

**Exhibit 1: H117 results highlights**

| €000s | H117 | H116 | y-o-y |
|---|---|---|---|
| Total revenue | 8,059 | 3,950 | 104.0% |
| Costs of services | (1,773) | (2,166) | -18.2% |
| Personal expenses | (1,413) | (847) | 66.9% |
| Other operating expenses | (850) | (691) | 23.1% |
| D&A | (68) | (67) | 2.3% |
| Income from affiliated companies | 0 | 1,560 | N/A |
| EBIT* | 3,955 | 1,740 | 127.3% |
| EBIT margin (%)* | 49.1% | 44.0% | 402 bps |
| Other interest and similar income | 6 | 44 | -85.3% |
| Interest and similar expenses | (2) | (1) | 53.3% |
| EBT | 3,959 | 1,782 | 122.2% |
| EBT margin (%) | 49.1% | 45.1% | 402 bps |
| Income tax | (944) | (193) | 388.4% |
| Effective tax rate (%) | 23.9% | 10.9% | 1,300 bps |
| Net profit for the period | 3,015 | 1,588 | 89.8% |
| Net margin (%) | 37.4% | 40.2% | -281 bps |

Source: ÖKOWORLD accounts. Note: * EBIT numbers based on Edison calculations

The performance of ÖWAG's respective funds is illustrated in Exhibit 2. Growing Markets 2.0 (12% of total AUM as of 8 September) is leading the way with returns of 12.8% (C-units) and 13.4% (D-units) ytd, while ÖWAG's flagship fund Ökovision Classic (73% of total AUM) posted returns of 6.7% (C-units) and 5.2% (A-units).

**Exhibit 2: Funds AUM and performance**

| Fund | Ytd return | AUM (€m) |
|---|---|---|
| Ökovision Classic C Anteile | 6.7% | 637.1 |
| Ökovision Classic A Anteile | 5.2% | 70.3 |
| Growing Markets 2.0 D Anteile | 13.4% | 66.2 |
| Growing Markets 2.0 C Anteile | 12.8% | 51.1 |
| New Energy Fund | 0.2% | 58.4 |
| Rock 'N' Roll (formerly: Ökotrust) | 7.0% | 45.0 |
| Klima | 9.3% | 24.1 |
| Water for Life | 6.1% | 17.7 |
| Total | - | 969.8 |

Source: ÖKOWORLD accounts, Bloomberg. Note: Ytd return and AUM as at 8 September 2017.

# Valuation

A peer group valuation appears to be difficult, as directly comparable business models are not seen in the market. In most cases, the asset management units are not listed, while the funds are listed and trade around NAV.

Companies with both business structures might include Patrizia Immobilien (real estate asset management in separate funds, asset structuring and advisory); MLP (an insurance broker and asset advisory, running its own fund group); IMPAX Asset Management (managing and advising on approximately US$6.8bn primarily for institutional clients); and AZIMUT asset management (specialised in asset management, the group offers financial advisory services for investors, primarily through its advisor networks).

Following the 27% price appreciation ytd, ÖWAG shares trade at a premium to the peer group on P/E and EV/EBITDA for FY17e of 4% and 27%, respectively. The premium widens in FY18e and FY19e due to limited earnings growth expectations (6-7% per annum) as per Bloomberg consensus estimates. However, ÖWAG's earnings growth may differ significantly from current market consensus, given that it is largely driven by performance fees based on the high-water mark approach. Importantly, a potential negative factor to take into account in a peer comparison is that ÖWAG's listed shares are non-voting preference shares, while the non-listed voting stock is in the hands of management and selected employees. On the other hand, ÖWAG offers an attractive dividend yield of c 4%, above the peer average for FY17e and FY18e.

**Exhibit 3: Peer group comparison**

| | Market cap | P/E (x) | | | EV/EBITDA (x) | | | Dividend yield (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | (€m) | 2017e | 2018e | 2019e | 2017e | 2018e | 2019e | 2017e | 2018e | 2019e |
| MLP | 641.0 | 21.5 | 15.7 | 14.4 | 8.5 | 6.5 | 6.1 | 3.2% | 3.8% | 4.9% |
| Patrizia Immobilien | 1,418.9 | 24.1 | 20.0 | 17.8 | 13.2 | 11.3 | 10.0 | 1.2% | 1.7% | 2.0% |
| IMPAX | 131.0 | 22.4 | 17.9 | 14.1 | 15.1 | 11.2 | 9.6 | 2.7% | 3.3% | 4.2% |
| AZIMUT | 2,516.3 | 13.0 | 12.3 | 11.3 | 9.6 | 9.0 | 8.0 | 6.6% | 7.0% | 7.7% |
| **Peer group average** | | **20.2** | **16.5** | **14.4** | **11.6** | **9.5** | **8.4** | **3.4%** | **3.9%** | **4.5%** |
| ÖKOWORLD | 99.7 | 21.0 | 19.7 | 18.4 | 14.7 | 13.7 | 12.8 | 4.0% | 4.0% | 4.0% |
| **Premium/(discount) to peer group** | | **4%** | **20%** | **28%** | **27%** | **45%** | **52%** | **-18%** | **-2%** | **10%** |

Source: Company accounts, Bloomberg consensus estimates as at 8 September 2017

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|---|---|---|---|
| **Frankfurt** +49 (0)69 78 8076 960 | **London** +44 (0)20 3077 5700 | **New York** +1 646 653 7026 | **Sydney** +61 (0)2 8249 8342 |
| Schumannstrasse 34b | 280 High Holborn | 295 Madison Avenue, 18th Floor | Level 12, Office 1205 |
| 60325 Frankfurt | London, WC1V 7EE | 10017, New York | 95 Pitt Street, Sydney |
| Germany | United Kingdom | US | NSW 2000, Australia |