

ÖKOWORLD

Diversified financials
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Solid AUM expansion in FY17

ÖKOWORLD (ÖWAG) recorded an upsurge in profits on the back of a healthy performance in managed funds (with its flagship Ökoworld Classic posting an 11.4% return in FY17) and growth in assets under management (AUM) to €1.08bn as at end December 2017. The increase in management and performance fees by €4.6m and €1.8m respectively resulted in 66% y-o-y EBIT growth in FY17. AUM have continued to grow in 2018 and reached c €1.13bn at end April 2018. However, continued weakness in equity markets will have a negative impact on ÖWAG's performance fees.

FY17 results boosted by fund performance

ÖWAG posted 91.2% y-o-y growth in EBIT to €9.9m (based on Edison calculations) and an EBIT margin improvement of c 6.4pp to 62.6%, supported by top-line growth of 71.8% y-o-y. The latter was driven by higher performance and management fees on the back of AUM growth and solid returns in ÖWAG investment funds. However, it also contains a €1.3m non-recurring item related to pension provision reversal. Equity as a percentage of the balance sheet total reached 75% (vs 73% at end FY16) and the cash position stood at €12.8m compared with €8.8m in FY16.

Subdued equity markets may limit performance fees

AUM were c €1.13bn as at end April 2018 (based on our calculations). However, after a strong FY17, ytd fund returns as at 30 April 2018 are more muted due to overall weakness in equity markets (the DAX has remained broadly flat ytd with high volatility). ÖWAG's Ökovision Classic fund (71% of total AUM) posted a ytd return close to nil, while the second-largest Growing Markets 2.0 fund has posted a return of c -3% ytd. As ÖWAG's key funds remain close to their high-water marks, we expect performance fees for FY18 are probably relatively low at present.

Valuation: Share price rally continues

Following the 35.3% share price rally ytd, ÖWAG shares trade at a premium to peers on P/E and EV/EBITDA multiples for FY18e of 73% and 86%, respectively. The premium widens in FY19e due to limited earnings growth expectations (8-9% vs FY18) as per Bloomberg consensus estimates. Consequently, the shares trade at an even higher premium on FY18e and FY19e numbers. However, we note that consensus is based on the estimates of a single analyst.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	9.2	5.2	0.60	0.51	30.6	2.8
12/17	15.8	9.7	1.02	0.59	18.0	3.2
12/18e	18.8	6.4	0.66	0.55	27.8	3.0
12/19e	19.8	7.0	0.71	0.56	25.8	3.1

Source: Ökoworld accounts, Bloomberg consensus

Price €18.33

Market cap* €136m

*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 (€m) as at 31 December 2017	12.8

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 AUM of €1.1bn as at end-April 2018.

Bull

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

Bear

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

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Financials: Results assisted by performance fees

ÖWAG reported robust FY17 results with EBIT growing by 91.2% y-o-y to €9.9m, compared with €5.2m in FY16. Total revenue increased by €6.6m (or 71.8%) y-o-y and amounted to €15.8m. As brokerage income declined by 3.5% y-o-y (€1.44m in FY17 vs €1.49m in FY16), the main driver behind the improved results was the asset management area. The investment trust Ökoworld LUX SA, which executes the SRI-driven fund management within the group, recorded an increase in assets under management (AUM) to €1.076bn. At the same time, ÖWAG's main funds were able to surpass their high-water marks. As a result, the performance fee booked in FY17 exceeded FY16 by €4.6m, while the management fee improved by €1.8m and amounted to €8.5m. Revenue growth was partially offset by an increase in total expenses and a decrease in income from related companies. Both factors resulted from the merger of Ökoworld Lux S.A. Repräsentanz with the parent company which took effect on 1 January 2017. As a result, 11 employees joined ÖWAG, which drove salary costs up by 75.5% to €2.6m (vs €1.5m in FY16). This number was compensated for by one-off items related to a reversal in the pension provision of c €1.3m, which resulted in only a 2.9% y-o-y rise in personnel expenses. However, income from related companies decreased by almost €2.0m (54.8% y-o-y) to €1.6m in FY17. Despite net interest expenses increasing from €35k to €194k the EBT margin increased by 551bp (61.4% in FY17 vs 55.8% in FY16). The higher effective tax rate (22.3% in FY17 vs 10.3% in FY16), resulted from the decline in dividends received from subsidiaries (which are taxed with the lower rate). The net profit for the period increased 63% y-o-y to €7.6m. However, due to higher income tax paid, the net margin declined by 244bp to 47.7% in FY17.

Exhibit 1: FY17 financial highlights

Year end December (€000)	FY17	FY16	% y-o-y
Total revenue	15,844	9,222	71.8%
Costs of services	(3,758)	(4,552)	-17.4%
Personal expenses	(1,527)	(1,485)	2.9%
Other operating expenses	(2,125)	(1,448)	46.7%
D&A	(139)	(137)	1.3%
Income from related companies	1,620	3,585	-54.8%
EBIT	9,915	5,185	91.2%
EBIT margin (%)	62.6%	56.2%	636bp
Other interest and similar income	29	108	N/M
Interest and similar expenses	(223)	(143)	55.5%
EBT	9,721	5,150	88.7%
EBT margin (%)	61.4%	55.8%	551bp
Income tax	(2,171)	(531)	309.1%
Effective tax rate (%)	22.3%	10.3%	N/M
Net profit for the period	7,551	4,620	63.4%
Net margin (%)	47.7%	50.1%	-244bp

Source: Ökoworld accounts, Edison Investment Research

Asset management business performance

The FY17 results were driven mainly by developments in the asset management area. The company has achieved its goal of exceeding €1bn of assets under management (AUM) which it set last year. As at end-December 2017, the company managed €1.076bn of assets compared to €838m as at end-December 2016 (an increase of 28.4% y-o-y). This is in line with broader customer interest in sustainable retail funds in Germany, which as at the end of March 2018 had an aggregate AUM of €21bn, but attracted €2.7bn of new inflows in 2017 alone (according to BVI data). The investment trust within the group currently manages six funds, all of which follow the SRI strategy and recorded positive returns in FY17. The largest fund, Ökoworld Ökovation Classic, representing c 71% of total AUM, recorded an 11.4% positive return in FY17. The best-performing fund however was Ökoworld Growing Markets 2.0 (ÖWAG's second-largest fund with AUM of €155m), which generated a return of 24.8%.

Exhibit 2: Funds AUM and performance

Fund	YTD return as at end-April 2018 (%)	2017 return (%)	AUM as at end-2017 (€m)
Ökovation Classic	-3.4%	11.4%	763.1
Growing Markets 2.0	-4.5%	24.8%	155.3
New Energy Fund	-1.9%	5.1%	59.1
Rock 'N' Roll (formerly: Ökotrust)	-2.0%	13.7%	50.2
Klima	-2.2%	21.1%	28.0
Water for Life	-1.4%	15.4%	19.9
Total			1,075.6

Source: Ökoworld

Valuation

ÖWAG's market cap is c €153.9m and its enterprise value (EV) stands at c €163m. The company had €1.076bn in assets under management (AUM) as the end of FY17 and achieved a ROE of 47% in the period (though this was somewhat inflated by the non-recurring item described earlier).

Selecting a peer group to compare valuation metrics appears to be difficult, as the market lacks any directly comparable business models. The asset management units are rarely 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 £7.6bn 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 35.3% share price appreciation ytd, ÖWAG shares trade at a premium to the peer group on P/E and EV/EBITDA multiples for FY18e of 73% and 86%, respectively. The premium widens in FY19e due to limited earnings growth expectations at 8-9% 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. Moreover, Bloomberg consensus is currently based on the estimates of one analyst. 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.

Exhibit 3: Peer group comparison

	Market cap (€m)	PE (x)			EV/EBITDA (x)			Dividend yield (%)	
		2017	2018e	2019e	2017	2018e	2019e	2018e	2019e
MLP	600.2	N/A	17.3	15.8	N/A	19.9	18.5	3.8%	4.1%
Patrizia Immobilien	1,655.9	29.9	22.1	17.9	18.1	17.1	14.0	1.7%	2.2%
IMPAX	251.3	26.1	15.5	14.3	31.5	N/A	N/A	2.2%	2.7%
AZIMUT	2,007.0	8.3	11.4	10.2	5.5	6.2	5.5	8.5%	8.3%
Peer group average		21.4	16.6	14.5	18.4	14.4	12.7	4.1%	4.3%
Ökoworld	140.3	18.6	28.6	26.6	20.5	25.2	23.1	2.9%	3.0%
Premium/(discount) to peer group		-13%	73%	83%	12%	75%	82%	-28%	-31%

Source: Company accounts, Bloomberg. Note: ÖWAG's consensus is based on the estimates of one analyst.

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