Deutsche Beteiligungs

Private equity

27 October 2021

German private equity investor and manager

Deutsche Beteiligungs (DBAG) is a well-established player in the German private equity (PE) mid-market. It has been increasing its exposure to new 'growth' sectors, which currently make up 43% of its portfolio and have proved resilient in the COVID-19 crisis. These include broadband/telecom (25%), which are a play on the secular trend of network roll-out in Germany. DBAG's industrial exposure (currently valued at slightly below the average acquisition cost) represents 39% of the portfolio and may appeal to investors seeking exposure to cyclical value companies.

Multiple positive guidance revisions

DBAG posted a 24.5% NAV total return in 9M21 ending June, even after the dilutive impact of the c €106m recent share issue. On the back of strong portfolio revaluations, DBAG posted a net profit of €131m in 9M21 (9M20: €25m loss), which was supported by successful disposals (DNS:Net, Rheinhold & Mahla and blikk). DBAG raised its FY21 guidance three times during the year and currently expects net income of €175–195m (from an initial €40–45m). It now also expects profit from fund services of €19–20m (from €15–16m) due to lower than anticipated divisional costs. This implies a c 100% y-o-y increase in fund services income in FY21 and reflects fees from the DBAG Fund VIII launched in August 2020.

DBAG plans to accelerate investments

DBAG has recently taken steps aimed at a significant increase in its investment activity, including: 1) team expansion (80 employees versus 75 at end FY19 and this is expected to increase further), 2) increasing its credit facility to €106.7m (of which €46.2m remains undrawn), and 3) a successful equity issue with gross proceeds of €106m. DBAG intends to invest c €120m pa, 40% more than its historical three-year average. We calculate that paired with the disposal proceeds from recent exits, DBAG had c €205m available for investments at end June 2021.

Valuation: Two business units

DBAG trades at a 14.0% premium to its NAV (defined as equity value), below its five-year average of 18.6%, despite the solid performance. The persisting premium in our view comes from the value of the fund services segment, which is not captured in the NAV. If we assume that DBAG's PE investments segment is valued at a discount to NAV in line with its peers (currently 9%), the market-implied value of the fund services segment is €145m, which translates to a c 7.5x FY21 P/E multiple. This implies a c 70% discount to listed alternative asset managers and suggests that DBAG's current market valuation may be relatively undemanding.

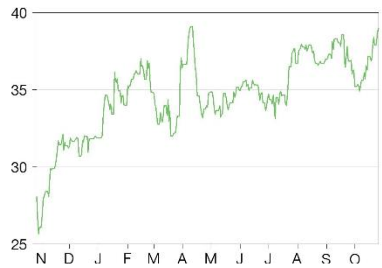
DBAG's performance against indices*

12 months ending	Total share price return (%)	Total NAV return (%)	LPX Europe (%)	LPX Europe NAV (%)	SDAX (%)
06/18	(9.0)	9.9	9.3	10.8	10.2
06/19	1.0	3.3	5.9	6.5	(4.8)
06/20	(5.8)	0.7	(12.7)	1.4	1.4
06/21	23.2	28.0	55.1	22.4	49.6

Source: Refinitiv. Note: 12-month total return performance in euros up to last reported NAV.

Price	€39.00
Market cap	€733m

Share price graph



Share details

Code	DBAN
Shares in issue	18.8m
Net cash at end June 2021	€98.8m

Business description

Deutsche Beteiligungs is a Germany based and listed private equity investment and fund management company that invests in mid-sized companies in Germany and neighbouring countries via MBO transactions and growth capital financings. There is a focus on growth-driven profitable businesses valued between €50m and €250m. It also manages €2.6bn of third-party capital, which generates stable recurring fee income.

Bull

- Solid track record, with an average management buyout exit multiple of 2.7x.
- Growing exposure to broadband, IT and healthcare.
- Stable and recurring cash flows from fund services.

Bear

- Cost inflation and supply bottlenecks may limit earnings recovery in the industrial portfolio.
- Ample dry powder in the market translating into high competition for quality assets.
- High valuations in most resilient sectors.

Analysts

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