

Branicks Group AG

Buy (unchanged) Target: Euro 5.00 (unchanged)

21 | May | 2024



■ Price (Euro)	1,98			
52 weeks range	6.00 / 0.86			
■ Key Data				
ISIN	DE000A1X3XX4			
Bloomberg	BRNK:GR			
Reporting standard	IFRS			
Market Cap (Euro million)	165			
Number of shares (million)	83,6			
Free Float	47,2%			
Free Float Market Cap (Euro million)	78			
CAGR EBIT (23 -26e)	253,5%			
■ Multiples				
	2023	2024e	2025e	2026e
Market Cap / Total revenues	0,9	1,0	1,0	1,0
PE-Ratio	-2,5	-2,6	-23,8	11,8
Dividend Yield	0,0%	0,0%	0,0%	0,0%
■ Key Data per share (Euro)				
	2023	2024e	2025e	2026e
Earnings per share (EPS)	-0,79	-0,76	-0,08	0,17
FFO per share	0,62	0,52	0,66	0,90
Dividend per share (DPS)	0,00	0,00	0,00	0,00
■ Financial Data (Euro '000)				
	2023	2024e	2025e	2026e
Gross rental income	188.273	165.993	168.492	172.833
Net rental income	164.634	143.922	145.293	148.814
Administrative expenses	-27.210	-26.132	-28.100	-30.188
Personnel expenses	-40.101	-39.227	-40.341	-42.375
Real estate management fees	50.853	42.562	61.239	84.299
Profit on disposal of investment property	8.184	5.399	12.418	11.014
EBIT	2.035	24.757	70.674	89.864
Net financial result	-92.816	-104.011	-91.358	-81.897
EBT	-84.333	-73.577	-11.135	20.388
Taxation	-34.577	-36.607	-38.637	-40.667
Net profit after minorities	-65.960	-63.706	-6.963	14.054
FFO	51.900	43.400	55.300	75.400
■ Main Shareholders				
Deutsche Immobilien Chancen-Gruppe	32,7%			
Yannick Patrick Heller	10,1%			
RAG-Stiftung	10,1%			
■ Financial calendar				
AGM	22 August 2024			
1H 2024 report	27 August 2024			
9M 2024 report	7 November 2024			
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A satisfying first quarter with progress in operating business and in restructuring the debt side – we maintain our Euro 5.00 price target

Last week, on 16 May, the company released the 1Q 2024 quarterly report and invited to an analyst's conference call. The first quarter picture unveiled a solid operating performance, as annualized like-for-like rents were up 4.6%, from Euro 587m to almost Euro 615m. Another hint for the superior asset quality was a still very low EPRA vacancy rate of only 5.5%, after 5.3% at year-end 2023 and 4.9% one year ago, despite a recession of -0.2% in Germany last year and the tenacious reluctance of buyers and tenants for new contracts in the office segment. We regard the letting performance of 109k sqm as a good result in this challenging environment, even if last year's first quarter delivered 123k sqm. Almost all of this were prolongations. Three big prolongations came in, two for the Institutional Business and office spaces in Frankfurt and North Rhine Westphalia (53k sqm) and one big for the own Commercial Portfolio (CP, 30k sqm). In contrast to sound prolongations, the new lettings imploded from 31k sqm last year to now only approx. 4k sqm.

The WALT lease term number in the Commercial Portfolio is at a stable and satisfying level of 4.7 years, a bit below last year's 5.1 years, as Branicks sold some retail properties to streamline the portfolio, for instance former Kaufhof Leverkusen was sold in November. All in all, with last year's asset sales, the rental income was down from Euro 44.0m to Euro 38.5m, whereas the Institutional Business has still quite stable asset management and property management fees but no transactions fees, as tailwind from sluggish markets was still missing. Fees were slightly down from Euro 10.5 to Euro 9.7m. More 60% of investors in the Institutional Business have more than 1 product, which speaks a clear language for the given trust in Branicks profound industry expertise. **With the lower fees and rental income the FFO I was also down, but Branicks could partly offset this trend but reduced personnel and admin expenses. In the Institutional Business the admin expenses were down by remarkable 12%, from Euro 11.0m to Euro 9.7m. All in all, the FFO I was only down from Euro 12.9m to Euro 9.0m, which is a good start to reach the range for the unchanged full year guidance of Euro 40m to Euro 55m.**

The most important point for the equity story at the moment is the situation at the debt side, where the company made some remarkable steps at the end of March, with the Euro 225m prolongations of promissory notes until mid 2025 pursuant to the German StaRUG restructuring framework and the partly repayment and Euro 160m prolongation of bridge loan until year-end 2024.

In the conference call the management stated a good progress at some important sale transactions in the pipeline (about Euro 200m to Euro 300m), which might be realized quite soon, perhaps already within the second quarter, to free capital and give further relief for the stretched debt side. Adjusted LTV was already improved a little bit, from 57.6% at year-end 2023 to 56.9%, giving optimism for the 50% target in 2025.

We wait for positive trading news that should give some momentum for the share price development. The road to recovery in office transaction markets, which is a big part of the overall recovery for the firm, seems a long and bumpy road, but Branicks took measures to improve FFO by reducing their costs and introducing new business fields like recently done by the new co-operation with Encavis Asset Management for renewable funds. **With a satisfying 1Q 2024 picture we maintain our positive view on Branicks and keep our Buy recommendation. As we expect more momentum to occur after some positive news flow from sale transactions for the next months we also stick to our Euro 5.00 target price.**

Branicks Group AG

Industry:	Real Estate	Management Board of Branicks
Sub-segment:	Commercial property investor Own book / Institutional Business / Managed Accounts (transaction, asset and property management)	Sonja Wärtges (CEO) Johannes von Mutius (CIO) Torsten Doyen (CIBO) Christian Fritzsche (COO)
Region:	Germany	Supervisory Board of Branicks:
Headquarter:	Frankfurt	Dr. Angela Geerling
Foundation	1998	Michael Zahn
Employees:	305	Prof. Dr. Gerhard Schmidt Eberhard Vetter Rene Zahnd
IR Contact:		
	Dipl.-Bw. Jasmin Dentz, CIRO ir@branicks.com	

Branicks (formerly DIC Asset) is a strong commercial properties player in the German market with two strong and in general more or less equally weighted pillars or businesses, which help for a very complementary income and investment structure.

In the Commercial Portfolio Branicks does on balance sheet investment for their own books, in particular office and logistics properties that offer a stable cash income as well as some value add properties which need more attention to reduce vacancy and increase the intrinsic cash flow in mid-term, in particular by repositioning or revitalization of some assets. This strategy is complemented by an intelligent cycle management to sell some properties at the right time for portfolio optimization and generating additional trading profits. The commercial portfolio has a size of about Euro 3.65bn at present.

In the second pillar, the Institutional Business, the company launches diversified real estate funds for many years, as the DIC Office Balance I was initiated in 2010 and DIC Office Balance II in 2014 and DIC Office Balance III in 2015, all with targeted AuM between Euro 300m and Euro 450m. Branicks also initiated funds outside the office topic, for instance with the DIC Retail Balance I fund, which came in September 2017 with a size of about Euro 250m or the new RLI-GEG Logistics & Light Industrial III fund with a volume of Euro 400m. The institutional business offers a great range of fees for set-up, transactions, asset and property management services for the funds, club deals and individual mandates. In addition to a broad income stream from servicing fees there are lucrative equity returns from the co-investment stakes. The assets under management in the Institutional Business steeply increased by almost 50% in 2019, from Euro 3.9bn to Euro 5.7bn, to Euro 7.6bn in 2020 and again steeply to Euro almost Euro 9.3bn in 2021 and Euro 10.25bn in 2022. At the end of 2023, the AuM in the segment amounted to Euro 9.6bn. All activities in the field of fund business (third party mandates) have been bundled under the GEG roof. Both pillars, the Commercial Portfolio and the Institutional Business, are serviced from the group's own asset and property management platform, with branches in Frankfurt, Mannheim, Düsseldorf, Cologne, Hamburg, Munich, Berlin, Stuttgart and Neuburg. The institutional business offers a lucrative income stream of management fees as well as transaction-related fees and performance fees. As of April 2024, the firm announced a stronger strategic focus on ESG and Renewables and plans to launch its first Renewable Fund with a volume of Euro 300m in the first half of 2024.

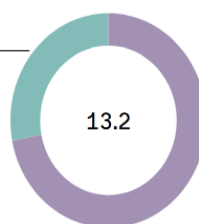
The FFO I result of 2023 stood at a level of Euro 52m and was expectedly more than halved from Euro 114m in 2022 due to the very sluggish market conditions and the respective much lower transaction volume in the institutional business segment as well as the significantly higher financing expenses. For 2024 Branicks guides a range of Euro 40m to Euro 55m for the FFO I result. After 1Q 2024 the FFO I stood at Euro 9.0m which is a good start for the full year target. This FFO result was realized with rental income from commercial portfolio and management & property fees from Institutional Business only, as there were no transaction related fees, so far.

Assets under management

in EUR billion

Commercial Portfolio 3.6
(proprietary portfolio)

- 168 properties
- Directly held portfolio
- Recurring rental income from Core/Core Plus and Value-add assets
- Medium to long-term investment horizon
- Sales at appropriate time



9.6 Institutional Business
(third-party business)

- 183 properties
- Investment vehicles for institutional investors
- Income from structuring and managing these vehicles
- Core real estate in major cities and economically strong regions

Source: Company Data, SRC Research

Branicks Group AG 31/12 IFRS ('000)	2021	2022	2023	2024e	2025e	2026e	CAGR '23 - '26e
Gross rental income	108.390	175.956	188.273	165.993	168.492	172.833	-2,8%
Ground rents	-523	-339	-169	-224	-326	-448	
Service charge income on principal basis	23.211	31.269	32.886	29.384	30.485	31.221	
Service charge expenses on principal basis	-26.415	-36.572	-38.997	-34.957	-36.538	-37.293	
Other property-related expenses	-13.447	-17.774	-17.359	-16.274	-16.820	-17.499	
Net rental income	91.216	152.540	164.634	143.922	145.293	148.814	-3,3%
Administrative expenses	-21.518	-37.863	-27.210	-26.132	-28.100	-30.188	
Personnel expenses	-38.096	-42.581	-40.101	-39.227	-40.341	-42.375	
Depreciation and amortization	-42.986	-73.883	-156.024	-102.374	-80.116	-82.129	
Real estate management fees	101.225	88.375	50.853	42.562	61.239	84.299	18,4%
Other operating income	3.815	5.699	2.495	3.180	3.725	4.331	
Other operating expenses	-1.802	-3.409	-796	-2.573	-3.444	-3.902	
Net proceeds from disposal of investment property	139.337	51.494	558.611	284.738	378.239	324.839	
Carrying amount of investment property disposed	-115.572	-38.797	-550.427	-279.339	-365.821	-313.825	
Profit on disposal of investment property	23.765	12.697	8.184	5.399	12.418	11.014	
Net operating profit before financing activities (EBIT)	115.619	101.575	2.035	24.757	70.674	89.864	253,5%
Share of the profit or loss of associates	6.524	18.918	6.448	5.677	9.549	12.421	
Interest income	9.550	10.635	17.878	14.353	9.883	5.425	
Interest expenses	-59.257	-71.217	-110.694	-118.364	-101.241	-87.322	
Profit/loss before tax (EBT)	72.436	59.911	-84.333	-73.577	-11.135	20.388	
Tax	-14.051	-17.053	13.634	4.539	2.784	-5.097	
Net profit	58.385	42.858	-70.699	-69.038	-8.351	15.291	
Minorities	590	11.834	-4.739	-5.332	-1.388	1.237	
Net profit after minorities	57.795	31.024	-65.960	-63.706	-6.963	14.054	
FFO	107,2	114,2	51,9	43,4	55,3	75,4	13,3%
Number of shares ('000)	81.504	82.689	83.427	83.566	83.566	83.566	
Earnings per share	0,71	0,38	-0,79	-0,76	-0,08	0,17	
FFO per share	1,32	1,38	0,62	0,52	0,66	0,90	
Dividend per share	0,75	0,75	0,00	0,00	0,00	0,00	
Shareholders' Equity	1.133.969	1.664.101	1.527.139	1.463.433	1.456.470	1.470.524	-1,3%
Equity Ratio	32,5%	32,1%	31,5%	30,8%	31,3%	31,4%	

SRC Research

- Der Spezialist für Finanz- und Immobilienaktien -

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Rating Chronicle

Company	Date	Rating	former share price	former target
Branicks Group AG	02.05.2024	Buy	1,62 €	5,00 €
Branicks Group AG	04.04.2024	Buy	1,35 €	5,00 €
Branicks Group AG	06.03.2024	Buy	1,24 €	3,00 €
Branicks Group AG	08.11.2023	Buy	4,10 €	9,00 €
DIC Asset AG	04.08.2023	Buy	4,21 €	11,00 €
DIC Asset AG	10.07.2023	Buy	5,31 €	11,00 €
DIC Asset AG	11.05.2023	Buy	6,70 €	14,00 €
DIC Asset AG	13.04.2023	Buy	6,71 €	16,00 €
DIC Asset AG	15.02.2023	Buy	8,85 €	16,00 €
DIC Asset AG	26.01.2023	Buy	8,74 €	16,00 €

Please note: The share price mentioned in this report is from 17 May 2024. Branicks Group AG mandated SRC Research for covering the share.

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