January 19th, 2023
Research update

SMC Research
Small and Mid Cap Research
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Accentro Real Estate AG

Refinancing of the bond secured

Rating: Buy (unchanged) | **Price:** 2.44 € | **Price target:** 5.20 € (prev.: 9.70 €)

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Recent business development

Basic data

Based in:	Berlin
Sector:	Residential properties
Headcount:	approx. 90
Accounting:	IFRS
ISIN:	DE000A0KFKB3
Ticker:	A4Y:GR
Price:	2.44 Euro
Market segment:	Prime Standard
Number of shares:	32.4 m
Market Cap:	79.1 m Euro
Enterprise Value:	533.4 m Euro
Freefloat:	12.1 %
Price high/low (12M):	6.50 / 1.99 Euro
Ø turnover (Xetra, 12 M):	11,400 Euro / day

Shortly before Christmas, Accentro announced a breakthrough in the refinancing of the EUR 250 m bond maturing in February 2023. Under an agreement with a group of bondholders, which has since been approved by a large majority of all bondholders, Accentro was granted a three-year maturity extension. In return, the coupon of the bond was increased by 2 percentage points (to 5.625 percent) and an attractive collateral package was put together. In addition, Accentro has committed itself to an ambitious repayment plan, under which EUR 150 m are already to be redeemed by 2025. At the same time, a similar agreement was reached with the sole holder of the 2021/2026 bond, whose term has now been extended to 2029 and whose interest rate has been increased to 6.125 percent. With these agreements, Accentro has, for the time being, successfully met the greatest challenge that has arisen for the company so far from the dramatic deterioration of the general conditions. In order to fulfil the agreement, however, Accentro will now have to revise part of its past expansion course through extensive sales of properties, which will be the operational focus of the next few years.

FY ends: 31.12.	**2020**	**2021**	**2022e**	**2023e**	**2024e**	**2025e**
Sales (m Euro)	125.2	192.7	167.9	116.0	134.0	154.6
EBIT (m Euro)*	34.7	45.2	8.1	2.1	9.4	11.7
Net profit*	16.6	11.8	-10.2	-26.5	-5.7	0.7
EpS*	0.51	0.37	-0.32	-0.82	-0.18	0.02
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Sales growth	-12.6%	54.0%	-12.9%	-30.9%	15.5%	15.4%
Profit growth	-37.4%	-28.5%	-	-	-	-
PSR	0.63	0.41	0.47	0.68	0.59	0.51
PER	4.8	6.7	-	-	-	120.3
EV / EBIT	15.4	11.8	66.2	253.1	56.6	45.7
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

** up to and including 2021 with valuation result, from 2022 without*

Refinancing plan agreed

In mid-December, Accentro announced that it had reached an agreement with a group of bondholders of the 2020/2023 bond maturing in February 2023, who together represent 56 percent of the holders of this bond, to extend the maturity by three years. In the meantime, the company has also been able to report the approval of a large part of the other bondholders, so that the agreement can be implemented as planned. At the same time, the EUR 100 m bond due in 2026, which is held entirely by a single bondholder with whom an essentially identical agreement has been concluded, is also to be extended by three years.

Higher interest and redemption schedule

In return for the maturity extension, the plan envisages in particular the increase of the interest rate by two percentage points to then 5.625 percent (or to 6.125 percent for the second bond). In addition, Accentro commits to an ambitious redemption schedule under which the outstanding volume of the bond is to be reduced from currently EUR 250 m to EUR 185 m at the end of 2023, EUR 120 m at the end of 2024 and EUR 100 m at the end of February 2025. To this end, the real estate portfolio is to be reduced from currently around EUR 625 m to around EUR 340 m at the end of 2026. One focus will be on the investment portfolio, which is to be reduced by almost two-thirds to EUR 140 m by 2026. For the current inventories, the agreement also provides for a rapid disposal by 2025, but at the same time new acquisitions are to be made here again. However, here as well, the possible purchases are subject to compliance with the redemption and deleveraging plan and are limited to EUR 30, 50 and 60 m for the next three years. In addition to the higher interest rates and the promised scheduled repayment and deleveraging, a further compensation for the bondholders consists of an improved collateralisation concept. Overall, Accentro sees this as an attractive package for the bondholders.

Decreasing rental revenues

The planned reduction in properties is also reflected in the forecast of rental revenues, for which the new business plan for the period 2023 to 2026 envisages a decline from EUR 18 to 11 m. Revenues from the sale of inventory properties, on the other hand, are expected to bottom out as early as this year at EUR 94 m and then recover to EUR 116 m. The company expects growth in the service business, which, according to planning, is to contribute around EUR 4 m to consolidated sales this year and increase further to EUR 6 m in the following years. Accentro emphasises that this is primarily the result of the high number of sales agreements and sales guarantees entered into with several project developers in 2022, some of which are secured by joint ventures (the total amount at the end of 2022 was EUR 40 m), and that it largely reflects the income-neutral sale of an imputed remainder. The actual commissions with a significant effect on earnings, on the other hand, were assessed at the low level of 2022 in the planning.

Cautious scenario

Accentro emphasises the cautious nature of the planning in other respects, too, which is primarily intended to document the sustainability of future interest and redemption obligations. Among other things, letting progress and rent increases have only been taken into account to a moderate extent, according to the company, while the assumed margin on disposals ranges between 10.6 percent for 2023 and 16.4 percent in 2026, according to our calculations. By comparison, it was 25.9 percent in the first nine months of 2022. Even though this certainly takes into account the changed market environment and possible price concessions, the discount still seems generous.

Black figures not until 2026

For EBIT adjusted for such effects, Accentro expects a further decline to EUR 2 m in 2023 (mainly due to the lower sales volume and margin), before the again slightly increased margin and the planned cost reduction should enable an increase to EUR 10-12 m from 2024. However, after deducting the financing costs, which rise to EUR 29 m in 2023 as a result of one-off expenses in connection with refinancing and the higher interest rate, and subsequently fall to EUR 15 m and EUR 11 m in step with the planned repayments, the planning scenario for 2023 and 2024 foresees high net losses (EUR -27 m and EUR -25 m respectively) and a minimal surplus only for 2026.

High free cash flow surpluses

The planned development of the free cash flow is different: it is expected to show high surpluses as early as 2023. These are due to a minor extent to net sales from inventories, but they mainly reflect the planned divestment process. In 2023, this mainly concerns the loans extended, the office building used as a corporate centre, for which a sale-and-lease-back transaction is planned, and the financial assets, while in 2024 the sale of a large part of the investment portfolio should provide a cash inflow of EUR 250 m.

Estimates comprehensively revised

The massive deleveraging program to which Accentro is committed under the bondholders' agreement means, at least temporarily, a departure from the growth strategy pursued so far. In particular, the development of a large investment portfolio pushed in recent years is now to be revised in the next few years and the core business with the marketing of residential properties is to be put back into focus. This also results in a greater need for change in our estimation model, which was previously based on the assumption of continuous growth in real estate assets. In addition, some of the figures for the third quarter were significantly below our expectations. The same applies to the revenues and earnings forecast for 2022, which was reduced at the end of November (revenues of EUR 160 to 170 m instead of EUR 200 to 220 m and EBIT between EUR 8 and 10 m instead of EUR 45 to 50 m previously). Overall, these aspects have necessitated a comprehensive revision of our estimates.

Multi-year divestment process

The core of the adjustment is the assumption of a multi-year divestment and deleveraging process, for the modelling of which we have been guided by the key data published by Accentro for the development until 2026. This means that both the real estate assets and the revenues and income that can be generated with them are significantly below the previously assumed level. Based on a decline to EUR 241 m in the last financial year, we now expect inventories to be further reduced to around EUR 180 m at the end of 2024 and then to gradually rise back to around EUR 235 m at the end of the detailed forecast period in eight years. For the investment portfolio, we expect a sharp decline to EUR 138 m by the middle of the forecast period and then a very moderate growth to around EUR 150 m at the end of 2030.

Revenue low in the current year

Against the backdrop of the difficult market environment, which made itself felt in the third quarter (and, according to the company's forecast for the entire 2022, also in the fourth quarter) in a drastic drop in the volume of notarised sales, we assume that sales activities will remain subdued in the current year. With regard to this year's revenues from the sale of inventory properties, we expect, in line with Accentro's management, EUR 94 m, for which Accentro says it can fall back on a certain cushion of contracts already concluded, which will have an effect on revenues in the current year because of the burden-benefit transition or because of the progress of construction. Nevertheless, this target value also implies a noticeable market recovery from the current shock rigidity by the middle of the year at the latest. Together with rental and service revenues, this results in a revenue estimate of EUR 116 m for 2023. This level also marks the low point within the detailed forecast period, after which we expect revenues to rise to almost EUR 165 m by 2030, thus roughly to the same level as in 2022.

Cautious margin assumptions

The margins we assume will also mark their low point in the current year. With regard to revenues from the sale of inventories, this results from the fact that achieving the sales targets this time could require significant price concessions. But rental profitability, which had clearly deteriorated in 2022 due to the high vacancy rate and extensive refurbishment measures, is also likely to improve only gradually. For the future, however, we assume that this will be successful and also anticipate a gradual normalisation of the sales margin, although we set a figure of 21 percent and thus below the average of recent years even at the end of the detailed forecast period.

Loss phase until 2024

Based on revenues and margin assumptions, we expect EBIT to be EUR 2.1 m and EUR 9.4 m respectively for the current and the coming year. After taking into account financing expenses, we expect high losses of EUR -26.5 m and EUR -5.7 m for 2023 and 2024 respectively. Only in 2025 does our model again show a slight profit of EUR 0.7 m. After that, we expect steadily increasing results; the target EBIT margin for the year 2030 is 17.5 percent. The table below summarises the model business development for the next eight years resulting from our assumptions. Further details are to be found in the Annex.

Discount rate increased

Another far-reaching adjustment concerns the discount rate. To take account of the significant increase in market interest rates, we have raised the assumed safe interest rate, for the determination of which we are guided by the German current yield, from 1.5 to 2.5 percent. As a result, with unchanged values for the market risk premium (5.8 percent) and the beta factor (1.1), the cost of equity increased to 8.9 percent. In conjunction with a likewise increased borrowing costs (from 4.5 to 5.0 percent), a debt ratio of 65 percent and an unchanged tax rate for the tax shield of 27.5 percent, this results in an average cost of capital (WACC) of 5.5 percent (previously: 4.8 percent).

New price target: EUR 5.20 per share

Due to the far-reaching restructuring of the estimation scenario, the consideration of the difficult market environment and the adjustment of the framework data of the model, the fair value of equity we determined has almost halved from previously EUR 314.0 m to now EUR 169.8 m. This corresponds to EUR 5.23 per share, from which we derive the new price target of EUR 5.20 (previously: EUR 9.70; a sensitivity analysis for determining the price target can be found in the Annex). Despite the strong downward revision, however, our price target for the share still signals a high upside potential of more than 100 percent. The central assumption here is that Accentro succeeds in achieving the sales volumes necessary to fulfil the redemption plans. Even though this is certainly not a foregone conclusion, especially in the current environment, we see the planning on which this

m Euro	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030
Sales	116.0	134.0	154.6	132.3	138.8	148.8	156.2	164.0
Sales growth		15.5%	15.4%	-14.4%	5.0%	7.2%	5.0%	5.0%
EBIT margin	1.8%	7.0%	7.5%	11.1%	12.9%	14.6%	16.3%	17.5%
EBIT	**2.1**	**9.4**	**11.7**	**14.7**	**17.9**	**21.8**	**25.4**	**28.7**
Tax rate	0.0%	0.0%	0.0%	27.5%	27.5%	27.5%	27.5%	27.5%
Adjusted tax payments	0.0	0.0	0.0	4.1	4.9	6.0	7.0	7.9
NOPAT	**2.1**	**9.4**	**11.7**	**10.7**	**13.0**	**15.8**	**18.4**	**20.8**
+ Depreciation & Amortisation	2.0	0.8	0.8	0.7	0.7	0.7	0.7	0.6
+ Increase long-term accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flows	4.1	10.2	12.4	11.4	13.6	16.5	19.1	21.4
- Increase Net Working Capital	47.4	-61.7	-1.9	-12.4	-4.3	-4.7	-5.0	-5.3
- Investments in fixed assets	62.7	249.5	-1.5	-2.5	-3.9	-4.0	-4.1	-4.2
Free cash flows	**114.2**	**198.0**	**9.0**	**-3.5**	**5.4**	**7.8**	**10.0**	**11.9**

SMC estimation model

assumption is based as sufficiently conservative to be fulfilled. Therefore, we have also left the assessment of estimation risk unchanged and continue to rate it at four points on a scale from 1 (very low) to 6 (very high).

Conclusion

With the conclusion of the agreements on the three-year maturity extension of the two bonds, Accentro has successfully mastered a major challenge resulting from the deteriorating market conditions, which has increasingly weighed on sentiment around the Accentro share for months. The fact that the increase in the coupon was limited to two percentage points each (to 5.625 and 6.125 percent) can also be considered a success in our view.

At the same time, however, Accentro has committed itself to a far-reaching deleveraging programme, which will result in the need to partially reverse the expansion of recent years in the coming years. This also affects, at least temporarily, the core business with the marketing of residential properties, but above all it affects the development of an investment portfolio pushed since 2020 which is now to be largely sold again.

These plans have also resulted in a fundamental need for change in the estimation scenario we use for the valuation. In addition, the operating performance in the third and most likely also in the fourth quarter of 2022 remained significantly below the expectations we had formulated in the last update. Against this background, we have significantly revised our estimates for the next few years, noticeably lowering the expected earnings. Together with the increase in the discount rate, with which we reacted to the continued rise in market interest rates, this was reflected in a significant reduction in the fair value we determined. We now see this at EUR 5.20 (previously: EUR 9.70), which nevertheless promises a doubling potential compared to the current price.

On this basis, we confirm our “Buy” rating for the Accentro share.

Annex I: SWOT analysis

Strengths

- With its focus on residential real estate, Accentro addresses an attractive market that is fundamentally characterised by a noticeable excess demand.
- A core business established for many years as a leading residential privatiser in Germany with a good track record, an extensive industry network and a large sales reach.
- The inventories include flats ready for sale with a selling value of EUR 300 m.
- With the agreement reached with the holders of the two bonds, the refinancing issue was successfully resolved.

Weaknesses

- Revenues from flat sales are volatile and difficult to forecast.
- The investment portfolio was purchased with a very high vacancy rate and has significant management deficits.
- Last year, the original targets were clearly missed.
- The rise in interest rates to date will put additional pressure on the profitability of the current portfolio.
- The planned deleveraging requires extensive divestments in the coming years and significantly limits growth potential.
- Numerous joint venture structures somewhat reduce the transparency of reporting.

Opportunities

- The planned reduction of vacancies in the investment portfolio, which was successfully initiated last year, could ensure a strong increase in rental revenues and create scope for further valuation gains.
- Especially in the current environment, Accentro could benefit from its own sales power and become a sought-after partner for portfolio owners or project developers.
- The cooperation with Immocsout24 could also result in attractive business opportunities in the future.
- Should the divestment process take place more quickly and on better terms than assumed, Accentro could switch back into growth mode sooner.
- Should market sentiment change, the share could quickly recover very strongly.

Threats

- Fulfilling to the ambitious repayment plans could prove difficult if market turbulence persists. Especially the partial sale of the investment portfolio could then become difficult.
- Another rise in interest rates could further lower the demand for property purchases and additionally damage rental profitability.
- A price decline in the parts of the real estate market addressed by Accentro could require value adjustments.
- Continued weakness in the real estate market could also make the refinancing of collateralised real estate loans more difficult and more expensive.
- Supply and capacity bottlenecks in the construction sector lead to increased cost and time risks in construction and conversion measures.
- Interventionist housing policies could be further intensified.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
ASSETS									
I. Total non-current assets	457.1	392.4	187.1	167.8	169.5	172.7	176.1	179.5	183.1
1. Intangible assets	20.5	20.3	20.1	20.0	19.9	19.8	19.8	19.7	19.7
2. Tangible assets	24.4	5.0	4.8	4.6	4.5	4.3	4.2	4.1	4.0
3. Properties held as investment	360.0	360.0	155.0	136.0	138.0	141.5	145.0	148.6	152.3
II. Total current assets	413.8	314.9	337.8	356.3	335.6	351.5	365.0	381.0	399.1
1. Inventories	241.0	196.0	181.0	191.0	206.0	212.9	220.4	228.2	236.4
LIABILITIES									
I. Equity	250.4	223.8	218.1	218.8	221.5	227.3	235.6	246.4	259.4
II. Accruals	0.9	1.2	1.4	1.7	2.0	2.2	2.5	2.8	3.0
III. Liabilities									
1. Long-term liabilities	505.8	435.8	255.8	246.3	221.3	227.3	230.3	232.8	235.3
2. Short-term liabilities	123.8	56.5	59.6	67.4	70.4	77.4	82.7	88.5	94.5
TOTAL	**880.9**	**717.3**	**534.9**	**534.1**	**515.1**	**534.3**	**551.1**	**570.5**	**592.2**

P&L estimation

m Euro	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales	167.9	116.0	134.0	154.6	132.3	138.8	148.8	156.2	164.0
Gross profit	38.7	19.6	23.3	24.0	25.7	29.3	33.4	37.3	40.8
EBITDA*	10.2	4.1	10.2	12.4	15.5	18.6	22.4	26.1	29.3
EBIT*	8.1	2.1	9.4	11.7	14.7	17.9	21.8	25.4	28.7
EBT*	-10.3	-26.6	-5.7	0.7	3.7	8.1	11.5	14.9	17.9
EAT (before minorities)*	-10.3	-26.6	-5.7	0.7	2.7	5.8	8.3	10.8	13.0
EAT*	-10.2	-26.5	-5.7	0.7	2.7	5.8	8.3	10.8	13.0
EPS*	-0.32	-0.82	-0.18	0.02	0.08	0.18	0.26	0.33	0.40

** without valuation effects*

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
CF operating	59.8	54.8	-51.2	10.5	2.0	12.1	14.6	17.0	19.1
CF from investments	-24.2	62.7	249.5	-1.5	-2.5	-3.9	-4.0	-4.1	-4.2
CF financing	-39.2	-172.0	-195.5	4.0	-36.0	0.2	-5.3	-5.5	-5.7
Liquidity beginning of year	121.5	118.0	63.5	66.4	79.4	43.0	51.3	56.6	64.0
Liquidity end of year	118.0	63.5	66.4	79.4	43.0	51.3	56.6	64.0	73.1

Key figures

percent	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales growth	-12.9%	-30.9%	15.5%	15.4%	-14.4%	5.0%	7.2%	5.0%	5.0%
Gross margin	23.1%	16.9%	17.4%	15.5%	19.5%	21.1%	22.5%	23.9%	24.9%
EBITDA margin	6.1%	3.6%	7.6%	8.0%	11.7%	13.4%	15.1%	16.7%	17.9%
EBIT margin	4.8%	1.8%	7.0%	7.5%	11.1%	12.9%	14.6%	16.3%	17.5%
EBT margin	-6.1%	-22.9%	-4.3%	0.4%	2.8%	5.8%	7.7%	9.6%	10.9%
Net margin (after minorities)	-6.1%	-22.9%	-4.3%	0.4%	2.0%	4.2%	5.6%	6.9%	7.9%

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	2.0%	1.5%	1.0%	0.5%	0.0%
4.5%	14.38	11.29	9.09	7.44	6.17
5.0%	10.62	8.50	6.92	5.69	4.71
5.5%	7.94	6.42	**5.23**	4.29	3.52
6.0%	5.93	4.79	3.88	3.14	2.52
6.5%	4.37	3.49	2.78	2.18	1.68

Disclaimer

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Charts
The charts were made with Tai-Pan (www.lp-software.de).

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II) Preparation and updating

The present financial analysis was prepared by: Dipl. Volkswirt Dr. Adam Jakubowski

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 19.01.2023 at x:xx and published on 19.01.2023 at x:xx.

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Strong Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
Speculative Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).

Hold	We expect that the price of the analysed financial instrument will remain stable (between -10 and +10 percent). The forecast risk (1 to 6 points) has no further impact on the rating. The rating "hold" is also used in cases where we perceive a price potential of more than 10 percent, but explicitly mentioned temporary factors prevent a short-term realisation of the price potential.
Sell	We expect that the price of the analysed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analysed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

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In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Investment recomm.	Price target	Conflict of interests
24.10.2022	Buy	9.70 Euro	1), 3), 4)
02.06.2022	Buy	11.50 Euro	1), 3), 4)
12.05.2022	Buy	11.50 Euro	1), 3), 4)
07.12.2021	Buy	14.60 Euro	1), 3), 4)
16.06.2021	Buy	13.20 Euro	1), 3)
25.05.2021	Buy	13.20 Euro	1), 3), 4)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: three updates.

The publishing dates for the financial analyses are not yet fixed at the present moment.

Exclusion of liability

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