

ÖKOWORLD

Diversified financials
12 June 2019

Management fees offset the volatile market

The positive market sentiment towards sustainable investments has allowed ÖKOWORLD (ÖWAG) to attract new capital and increase its assets under management (AUM) to €1.3bn at end-April 2019. This enabled it to keep its revenues broadly flat year on year, despite significantly lower performance fees. Every of its six funds reported a negative price performance in FY18, mainly on the back of the Q418 market drop. The YTD performance of funds is a healthy double-digit level, but values still hover around Q318 heights, limiting the perspectives for FY19 performance fees due to the high-water mark approach. ÖWAG's FY18 EPS was €0.50 following a 51% y-o-y decline, amplified by the lack of positive one-off effects in FY17.

Funds YTD rebound, but still below 2018 highs

ÖWAG's AUM increased to €1.3bn at end-April 2019 from €1.1bn at end-2017. The company manages six funds, with the flagship fund ÖKOWORLD Ökovision Classic making up 74% of total AUM. ÖWAG increased its assets by attracting new capital as all its funds reported a negative performance in FY18 following the Q418 market sell-off. Despite the YTD rebound, ÖWAG's largest funds have not yet exceeded the highs of Q318 and the perspectives for high performance fees are limited due to the high-water mark approach.

Earning on management fees

Due to a higher asset base and, consequently, management fees collected from funds, ÖWAG's FY18 revenues decreased only 3% y-o-y to €15.3m, despite €1.8m lower performance fees. ÖWAG did not receive dividend payments from related parties in FY18 (FY17: €1.6m) and its results were not supported by the positive FY17 one-off effect of revaluation of pension provisions of €1.4m. Consequently, net income for the period dropped 53% y-o-y to €3.5m and translated into an EPS of €0.50. We calculate a net margin at 23% vs 48% in FY17.

Valuation: Trading at double-digit premium to peers

Since beginning of 2019 ÖWAG's shares have been trading at €14.5–16.0 and the current share price of €15.0 implies a YTD return of -2.9% after a 10.5% increase during 2018. ÖWAG's shares trade at a premium to the peer group on P/Es of 52% and 45% for FY19e and FY20e respectively. We note that consensus estimates are based on estimates from a single broker.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	15.8	9.7	1.02	0.60	14.8	4.0
12/18	15.3	5.2	0.50	0.40	30.1	2.7
12/19e	19.0	6.0	0.69	0.60	21.7	4.0
12/20e	20.0	7.0	0.76	0.60	19.7	4.0

Source: ÖKOWORLD AG accounts, Refinitiv consensus as at 6 June 2019. Note: Consensus is based on the estimates of a single analyst.

Price €15.0
Market cap* €106m

*Based on 7.06m total shares issued (after deducting treasury shares); only 3.14m non-voting preference shares listed on the stock market.

Share price graph



Share details

Code	VV3
Listing	Deutsche Börse Scale
Shares in issue	3.14m
Last reported net cash as at end-2018	€11.9m

Business description

ÖKOWORLD Group's business is focused on asset management, insurance brokerage and advisory services. It is one of Germany's pioneers in socially responsible investing (SRI) and ethical-ecological investment advice, with its core reaching back to 1975. It preserved its successful core investment principles and reached AUM of €1.3bn at end-April 2019.

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.

Analysts

Michal Mordel	+44 (0)20 3077 5700
Michal Mierzwiak	+44 (0)20 3077 5700

financials@edisongroup.com
[Edison profile page](#)

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Financials: Management fee makes up for performance

ÖWAG reported revenues of €15.3m for FY18, which constitutes a 3% decrease compared to record-high FY17 results. This was achieved despite tougher market conditions resulting in a significant decrease in performance fee revenues (down €1.8m). However, ÖWAG posted sales close to the previous year through the increase in management fees that resulted from expanding AUM. AUM at the end of April 2019 were €1.3bn compared to €1.1bn at 31 December 2017, following an increase in all funds apart from Growing Markets 2.0. ÖWAG's fee structure includes 1.76% annual management fees earned by ÖKOWORLD Lux (fund manager subsidiary) and a performance fee calculated on a high-water mark basis. ÖWAG receives 45% of total management fees earned, with the balance used to pay for the costs of fund management in Luxembourg. In total, 80% of the fees received are paid out as retention fees to third-party distributors. These payments represent 36% of total retention fees earned by the fund management unit. In ÖWAG's accounts, these payments to the distributors are shown as 'material expenses'. The remainder is kept by ÖWAG.

Revenues comparable to FY17 did not translate into similar developments within the company's earnings due to double-digit increases across all expense categories. The most significant has been recorded in personnel expenses, which doubled in FY18. The FY17 figure, however, was shaped by the revaluation of pension provisions, which resulted in €1.4m income. Considering the cost of salaries only, the ÖWAG reported €2.7m of expenses, which was flat compared to FY17, even though the number of employees increased from 30 to 34 at the end of the financial year. Expanding AUM, which boosted revenues, also shaped material expenses, which increased by 15% y-o-y due to higher retention fees paid to the distributors.

The 46% y-o-y decrease in EBIT also arose from the lack of dividend payments received from related parties, which contributed €1.6m to the FY17 results. Consequently, net income for the period dropped 53% y-o-y to €3.5m. Similarly, the EPS dropped to €0.50 from €1.02 in FY17, which could result in the dividend being lower than €0.60 per share paid out from FY17 earnings.

Exhibit 1: FY18 results highlights

€000s	FY18	FY17	y-o-y
Total revenue	15,323	15,844	-3%
Material expenses	(4,321)	(3,758)	15%
Personnel expenses	(3,040)	(1,527)	99%
Other operating expenses	(2,357)	(2,125)	11%
D&A	(208)	(139)	50%
Income from related companies	0	1,620	-100%
EBIT	5,397	9,915	-46%
<i>EBIT margin</i>	<i>35.2%</i>	<i>62.6%</i>	<i>-27pp</i>
Other interest and similar income	2	29	-92%
Interest and similar expenses	(214)	(223)	-4%
EBT	5,186	9,721	-47%
<i>EBT margin</i>	<i>33.8%</i>	<i>61.4%</i>	<i>-28pp</i>
Income tax	(1,664)	(2,171)	-23%
<i>effective tax rate</i>	<i>32.08%</i>	<i>22.33%</i>	<i>10pp</i>
Net profit for the period	3,522	7,550	-53%
<i>Net income margin</i>	<i>23.0%</i>	<i>47.7%</i>	<i>-25pp</i>

Source: ÖKOWORLD AG accounts

The fund's performance: YTD double-digit rebound

ÖWAG manages six funds with total AUM reaching €1.3bn at end-April 2019. In 2018 all ÖWAG funds reported negative returns due to the Q418 equity market performance. As a result, performance fees were earned mostly in the first three quarters of 2018 and were €1.8m lower y-o-y. Despite a significant rebound over 2109 to April, fuelled by broad market recovery (MSCI World up 16% in the first four months of 2019), ÖWAG's main funds still have not reached the high-water marks set in Q318 and we assume the performance fees are not currently being collected.

We appreciate that despite the volatile environment, ÖWAG was able to attract new capital to its funds (we estimate it has attracted over €200m on end-April valuations since the beginning of 2018), which in turn translates to increasing management fees. ÖWAG's strategy fits into current market trends in Germany. Although the total volume of the asset management business shrank c 2% y-o-y in 2018 according to the German Investment Funds Association, sustainable investments increased ÖWAG's market share to 4.5%. Investment funds in Germany that are focused on sustainable investing attracted c €10.8bn of new capital in 2018 according to Forum Nachhaltige Geldanlagen data.

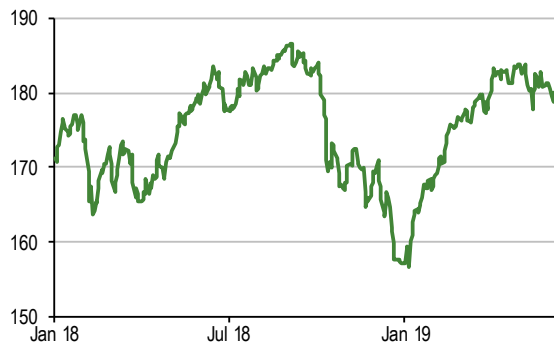
Exhibit 2: Funds AUM and performance (€m)

Fund	Ytd return at end-Apr 2019	2018 return	2017 return	AUM (30 April 2019)	AUM (31 December 2017)
Ökovision Classic	17.0%	(8.3%)	11.4%	997.90	763.12
Growing Markets	14.2%	(21.2%)	24.8%	127.71	155.28
Rock 'N' Roll	15.9%	(5.1%)	13.7%	89.92	50.18
Klima	26.3%	(9.2%)	21.1%	54.14	28.01
Water for Life	23.2%	(13.4%)	15.4%	24.37	19.87

Source: ÖKOWORLD, Bloomberg

The flagship fund, ÖKOWORLD Ökovision Classic, which held 74.2% of all assets under management at end-April 2019, delivered an 8.3% negative return in 2018 on the back of the Q418 downturn. Since beginning of 2019 the fund has recovered, posting 17.0% growth until end of April and reaching levels close to, but still below September 2018 highs. The fund's investment approach seems to be cautious in this volatile environment, as it keeps 18.4% of the portfolio in cash (up 3.4pp vs end-2017). The fund maintains significant exposure to the US market and US dollar, respectively 31.2% and 37.9% of NAV at end-April 2019. High US dollar exposure assisted the fund performance as it has been one of the better-performing currencies recently, appreciating 4.7% against the euro in 2018 and further 2.3% until end-April 2019. We calculate that the majority of capital inflow was directed to this fund.

The second biggest ÖWAG fund in terms of AUM, ÖKOWORLD Growing Markets posted a negative return of 21.2% in 2018 and its share in ÖWAG's total assets decreased to 10% at end-April 2019 from 14% at end-2017. The fund exposure focuses on emerging markets, with assets from China, India and Brazil making up 45.6% its portfolio at end-April 2019. The fund also has more active approach as currently 3% of its assets are held in cash. Unlike other ÖWAG funds, ÖKOWORLD Growing Markets experienced a steady decrease in the value of certificates throughout 2018 and currently have a significantly lower value than the highs in early 2018, despite 15.9% YTD performance. We calculate Growing Markets was the only fund experiencing a net capital outflow since end-2017.

Exhibit 3: ÖKOWORLD Ökovision Classic performance (€)


Source: Bloomberg

Exhibit 4: ÖKOWORLD Growing Markets performance (€)


Source: Bloomberg

The ÖKOWORLD Rock 'N' Roll, Klima and Water for Life funds make up 12% of ÖWAG total AUM at end-April 2019. All of them perform relatively well (Rock 'N' Roll was the best performing ÖWAG fund in 2018 and Klima is best performing over 2019 to the end of April) and value of their certificates exceeded their respective mid-2018 highs in Q219. The funds enjoy healthy net capital inflows but remain of minor importance to ÖWAG financial results due to their sizes.

Valuation

ÖWAG's market cap is c €105.9m and its enterprise value stands at c €94.0m. The company had c €1.3bn in AUM at the end of April 2019 and achieved a return on equity of 21% in FY18.

Selecting a peer group for valuation purposes is difficult as the market lacks directly comparable business models. The asset management units are rarely listed, while the funds are traded around NAV. Companies with both business structures 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);
- AZIMUT asset management (specialist in asset management, the group offers financial advisory services for investors, primarily through its advisor networks).

ÖWAG's shares have traded in a range of €14.5–16.0 since the beginning of 2019, at a significant premium to its peers. The Refinitiv consensus for ÖWAG is based on the estimates of a single analyst and implies P/E multiples of 21.0x and 19.1x for FY19e and FY20e, a 52% and 45% premium to selected peers, respectively. ÖWAG's earnings growth may differ significantly from current market consensus given it is largely driven by performance fees based on the high-water mark approach. Importantly, a potential negative factor to consider in a peer comparison is that ÖWAG's listed shares are non-voting preference shares, whereas the non-listed voting stock is in the hands of management and selected employees.

Exhibit 5: Peer group comparison

	Market cap (€m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2019e	2020e	2019e	2020e	2019e	2020e
MLP	454.7	14.6	13.1	27.5	26.3	4.7%	5.2%
Patrizia Immobilien	1,772.8	18.4	16.8	12.4	11.5	2.1%	2.4%
AZIMUT	2,169.9	8.7	9.7	7.2	8.0	7.8%	7.7%
Peer group average		13.9	13.2	15.7	15.3	4.9%	5.1%
ÖKOWORLD	105.9	21.7	19.7	15.7	13.4	4.0%	4.0%
Premium to peer group		56.3%	49.2%	-0.4%	-12.0%	-18.2%	-21.9%

Source: ÖKOWORLD AG accounts, Refinitiv. Note: ÖWAG consensus is based on the estimates of a single analyst.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia