

ÖKOWORLD

Continued growth in AUM

ÖKOWORLD (ÖWAG) has demonstrated over the past months that despite volatile market conditions, it can leverage the positive sentiment towards sustainable investment to drive growth in assets under management (AUM) beyond €1.3bn. The healthy ytd performance allowed most of the funds managed by its subsidiary, Ökoworld LUX, to rebound to the record high levels set in Q318. However, we note that H119 results were largely assisted by a dividend payment from an ÖWAG-related company. To generate significant performance fees in FY19, which are one of ÖWAG's key earnings drivers, the funds need to post strong positive returns in H219 as well.

Approaching previous high-water marks

In H119 all funds (except for ÖKOWORLD Growing Markets) managed to fully recover from the downturn at the end of FY18, reaching previous high-water marks. However, we believe that the performance fees ÖWAG earned in H119 were limited (if any). Nevertheless, net profit rose by c 19% y-o-y to €2.5m mainly due to dividends received from its subsidiary, Ökoworld LUX and despite a visible increase in personnel expenses and fees paid out to third-party distributors.

Growing AUM and solid returns amid market rebound

Flagship fund ÖKOWORLD Ökovision Classic (which represented 77% of ÖWAG's AUM at end-June 2019) posted a 17.2% return in H119 compared with the MSCI World Index return of c 17.5%. In addition, the fund's AUM grew to over €1.0bn. We believe that this demonstrates that in Germany sentiment towards sustainable investment is strong enough to fuel further development.

Valuation: Trading at a double-digit premium to peers

The current Refinitiv consensus for ÖWAG is based on the estimates of a single analyst and implies P/E multiples of 21.2x and 19.2x for FY19e and FY20e, respectively. This represents respective premiums of 28% and 27% to selected peers. Based on the most recently paid dividend, ÖWAG offers a dividend yield of 2.7%. However, we note that the prospective dividend potential could be boosted by an increase in performance fees earned.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	15.8	9.7	1.02	0.60	14.3	4.1
12/18	15.3	5.2	0.50	0.40	29.2	2.7
12/19e	19.0	6.0	0.69	0.60	21.2	4.1
12/20e	20.0	7.0	0.76	0.60	19.2	4.1

Source: ÖKOWORLD accounts, Refinitiv consensus as at 9 August 2019. Note: Consensus is based on the estimates of a single analyst.

Diversified financials

14 August 2019

Price €14.6
Market cap* €103m

*Based on 7.06m total shares issued (after deducting treasury shares). Only 3.05m non-voting preference shares are listed on the stock market.

Share price graph



Share details

Code	VV3
Listing	Deutsche Börse Scale
Shares in issue (incl. treasury shares)	3.05m
Last reported net cash (€m) as at end-FY18	11.6

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 and was founded in 1975. It preserved its successful core investment principles and reached AUM of over €1.3bn at end-June 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 its long history, still relatively low AUM.
- Strong dependency on German market.
- Only preference shares available to investors.

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Financials: Dividends drive improved profits

ÖWAG reported revenues of €7.4m in H119, which represents a small y-o-y decline (2.9%) for the second consecutive year following a 5.6% y-o-y drop in H118 vs H117. This is despite continued growth in AUM to over €1.3bn as at end-June 2019 and likely translated into higher management fee income. We believe that one of the factors behind the top-line decline was the drop in performance fees, as the ytd returns posted by the funds managed by ÖWAG's subsidiary, Ökoworld LUX, were insufficient to allow them to substantially exceed high-water marks set in Q318 (please refer to the fund performance section for details). Expanding AUM most likely resulted in increased retention fees paid out to third-party distributors, which led to an increase in material expenses of over 20% y-o-y. Over the same period, personnel expenses almost doubled y-o-y to €2.8m.

Despite decreasing revenues and growing expenses ÖWAG reported a c 19% improvement in EBIT, EBT and net profit due to the €2.4m in income received from related companies, which was not recorded in FY18. This represents dividend income from ÖWAG's subsidiary, Ökoworld LUX. Net profit for the period was c €2.5m (18.7% ahead of last year), which translated into a net margin improvement of 6pp to 33.3%.

Exhibit 1: H119 results highlights

€000s	H119	H118	y-o-y % change
Total revenue	7,382	7,604	-2.9%
Material expenses	(2,470)	(2,053)	20.3%
Personnel expenses	(2,756)	(1,444)	90.8%
Other operating expenses	(968.6)	(1,056.6)	-8.3%
D&A	(88)	(88)	0.9%
Income from related companies	2,430	0	N/A
EBIT	3,529	2,963	19.1%
EBIT margin	47.8%	39.0%	35pp
Other interest and similar income	1	2	-36.3%
Interest and similar expenses	(11)	(11)	-0.9%
EBT	3,519	2,954	19.2%
EBT margin	47.7%	38.8%	35pp
Income tax	(1,064)	(885)	20.3%
Effective tax rate	30.2%	30.0%	-
Net profit for the period	2,455	2,069	18.7%
Net income margin	33.3%	27.2%	6pp

Source: ÖKOWORLD accounts

The fund's performance: Sustained recovery

ÖWAG's AUM exceeded €1.3bn as at the end of June 2019. Another milestone was met in H119 as flagship fund ÖKOWORLD Ökoveision Classic broke through the €1.0bn mark to reach €1,028m. The fund currently represents around 77% of ÖWAG's total AUM. In our opinion, ÖKOWORLD benefits from the positive market sentiment in Germany towards sustainable investments.

In H119, all funds managed by Ökoworld LUX SA recorded robust returns in the range of 13% to c 25%, with ÖKOWORLD Klima leading the group. The rebound followed a tough 2018, when returns across funds had been negative due to the broader market sell-off towards the end of the year. The subsequent recovery resulted in almost all funds approaching or surpassing new all-time highs in unit prices by the end of June 2019, although we think it unlikely that this recovery translated into a significant amount of performance fees during the period.

Exhibit 2: Funds - AUM and performance

Fund	Ytd % return at end-June 2019	2018 return	AUM (€m at end-June 2019)
Ökoveision Classic	17.2%	(8.3%)	1,027.9
Growing Markets	13.1%	(21.2%)	121.3
Rock 'N' Roll	16.6%	(5.1%)	95.9
Klima	25.4%	(9.2%)	58.8
Water for Life	21.9%	(13.4%)	24.7

Source: ÖKOWORLD, Bloomberg

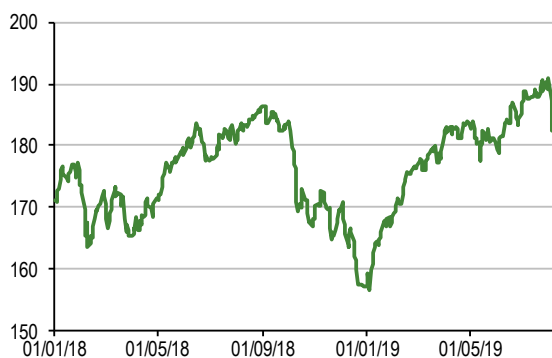
ÖKOWORLD Ökoveision Classic

The largest fund in ÖWAG's portfolio, ÖKOWORLD Ökoveision Classic, continued to recover following the Q418 downturn, posting a 17.2% return in H119 (largely in Q119) – a 3.6% return on a last 12 months (LTM) basis. The return was in line with the portfolio average and broad market represented by the MSCI World Index, which posted a c 17.5% return in H119. This strong performance was in part due to the significant exposure to the US dollar (which appreciated versus the euro in H119), with US investments and overall US dollar exposure representing 31.1% and 35.3% of NAV as at end-June 2019, respectively. In recent months, the fund manager deployed part of the fund's cash, which as a percentage of NAV was 14.2% at end-June compared with 18.4% at end-April 2019. As a result, the fund briefly surpassed its previous high-water mark towards the end of June (although the market correction in early August brought it back down, see Exhibit 3).

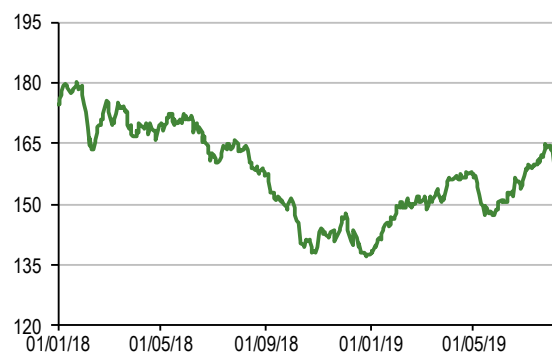
ÖKOWORLD Growing Markets

ÖKOWORLD Growing Markets also recorded a noticeable rebound in H119, posting a 13.1% return in the period. It is important to note however, that this fund suffered the most in 2018, posting a negative 21.2% return and still has not fully recovered as its LTM performance stands at a negative 4.1%. This is a consequence of the fund being overweight in the riskier emerging markets, such as India (15.2% of NAV), Brazil (10.4%) or Republic of South Africa (10.0%). It is also worth noting that it is a pure equity fund with 99.2% of its NAV invested in shares at end-June 2019.

The remaining funds constitute c 13.5% of total AUM and thus have a less significant impact on ÖWAG's financial results. Still, they recorded a solid performance with ÖKOWORLD Klima being the best performer with a return of 25.4% in H119.

Exhibit 3: ÖKOWORLD Ökoveision Classic performance


Source: Bloomberg

Exhibit 4: ÖKOWORLD Growing Markets performance


Source: Bloomberg

Valuation: Trading at a premium to peers

ÖWAG's market cap is c €103.1m and its enterprise value stands at c €90.3m. The company had over €1.3bn in AUM at the end of June 2019. Its shares have traded ytd in a range of €14.5–17.0 and at a significant premium to its peers. The Refinitiv consensus for ÖWAG is based on the estimates of a single analyst and implies respective P/E multiples of 21.2x and 19.2x for FY19e and

FY20e (compared to 29.2x based on FY18 figures) with a 28% and 27% premium to selected peers, respectively. This could in part be explained by ÖWAG's projected dividend yield, which exceeds the peer average.

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 to consider in a peer comparison is that ÖWAG's listed shares are non-voting preference shares and the non-listed voting stock is held by management and selected employees.

Exhibit 5: Peer group comparison

	Market cap (€m)	P/E (x)		Dividend yield (%)	
		2019e	2020e	2019e	2020e
MLP	483	15.0	13.6	4.8%	4.9%
Patrizia Immobilien	1,612	19.4	18.1	1.8%	2.0%
IMPAX	303*	22.5	18.1	2.2%	2.8%
AZIMUT	2,298	8.9	10.5	7.3%	7.6%
Peer group average	-	16.5	15.1	3.0%	3.3%
Ökoworld	119	21.2	19.2	4.1%	4.1%
Premium/(discount) to peer group	-	28.4%	27.3%	1.1pp	0.8pp

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

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