

Noratis

Real estate
16 August 2019

Strong pipeline

Noratis remains firmly on a growth path. Accelerating development of its asset base (the stock book value was up by over half in H218 at €176m) was followed by news that fundraising options for further expansion are under review. Although this should underpin strong long-term prospects, a typical two-year lead time for asset value enhancement explains apparently measured guidance for 2019 (maintained EBIT on higher revenue). Timing was also a factor last year as H2 bias of high-margin asset sales drove a 30% rise in adjusted EBIT, more than making up for a first-half shortfall. A generous dividend policy is being maintained despite growth ambitions.

H218 delivers

As expected, H2 saw the majority of planned 2018 asset disposals (notably Frankfurt) and at a much superior y-o-y margin (gross profit 37% vs 29%). This was supplemented by a sharp increase in rental income as a result of higher levels of stock at the start of the period. Such buoyancy remedied H1 setbacks, driving a small rise in full-year adjusted EBIT and PBT in line with guidance. This allowed a dividend of €1.30, given the company's policy of a c 50% payout (the reduction on 2017's €1.50 was due to the May 2018 capital increase).

Continuing to invest

Guidance is for EBIT and PBT to hold steady in 2019 on higher revenue as margins normalise from last year's high. This may seem at odds with the recent step-change in the asset base (book value up over 75% in 2018), fuelling growth prospects, but the lead time for investment projects can be at least two years. Management has maintained its intention to remain a net buyer, with 268 units acquired and 166 sold in 2019 to date (based on company releases). Noratis is considering funding options, while net debt more than doubled in 2018 to €141m.

Valuation: Long-term appeal

Sitting between asset holder and developer makes for difficult comparison with listed peers but Noratis is at a notable discount to RCM Beteiligungs, which has a similar model (FY18 P/E ratio of 11.8x). At 8.4x prospective P/E and with a P/BV (2018) ratio of 1.5x, the company offers an attractive yield (over 6% prospective), backed by a positive outlook and dividend commitment.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/17	68.0	15.2*	3.0	1.5	6.9	7.2
12/18	56.1	15.6**	2.6	1.3	8.0	6.3
12/19e	74.2	16.6	2.5	1.3	8.4	6.3
12/20e	80.6	17.9	2.7	1.3	7.8	6.3

Source: Noratis accounts, Refinitiv. consensus estimates. Note: *After €1.5m IPO costs. **After €0.8m capital increase costs. ***Based on 2.9m shares in 2017 and 3.6m shares in 2018.

Price €20.80
Market cap €75m

Share price graph



Share details

Code NUVA
 Listing Deutsche Börse Scale
 Shares in issue 3.6m

Business description

Noratis is a specialised asset developer, acquiring residential rental income-producing assets in secondary locations with optimisation potential. Investing in the asset base and improving the tenant mix creates value, which Noratis exploits during well-structured asset sales, either through individual or block sales.

Bull

- Strong experience operating in Germany's non-core areas.
- Focused investment and asset management approach to boost yields and asset values.
- Established business concept and strong partner network across Germany.

Bear

- Smaller company in a very competitive market.
- Low interest-rate environment may end.
- Dependence on attractive portfolio opportunities.

Analyst

Milosz Papst +44 (0)20 3077 5700

financials@edisongroup.com

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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