

Deutsche Grundstücksauktionen

Real estate

18 September 2020

Group results remain resilient

In H120, Deutsche Grundstücksauktionen (DGA) reported a more than 51% y-o-y improvement in revenue from auction sales to €2.9m on a standalone basis. However, this increase was largely offset by the muted performance of its subsidiaries, with total group commission income up c 2% y-o-y to €5.8m. With a high volume of new admissions for Q320, amounting to €36.1m, the company expects the next quarter to be solid. Nevertheless, due to pandemic-driven market uncertainties, management is not providing FY20 guidance.

Mixed performance of DGA and its subsidiaries

In H120, DGA and its subsidiaries recorded total turnover from auctions of €59.8m compared to €53.3m in H119. Although the group sold c 88.7% of all offered properties (84.6% in H119), the total number of properties traded in the period fell to 697 from 790. While the parent company expanded its sales volume to €26.5m from €17.6m in H119, the aggregate turnover of its subsidiaries fell by 6.8% and, consequently, net profit for the period was €0.8m, only slightly above the prior year.

Remote auctioning key to weathering COVID-19

DGA's success in H120 resulted from its quick response to the pandemic and the introduction of internet livestream, coupled with bid submissions executed online or over the telephone. Moreover, one auction conducted by Westdeutsche Grundstücksauktionen was carried out on the platform of Deutsche Internet Immobilien Auktionen (DIIA). All the above helped DGA and its subsidiaries to continue their operations largely uninterrupted. DIIA itself reported a 15.6% y-o-y decline in its trading volume to €1.8m and a 9.2% decrease in profit to €67.5k.

Dividend yield reduced to c 1%

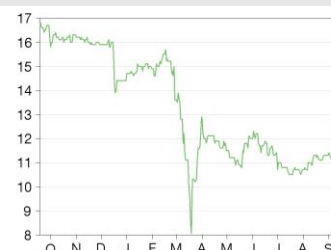
For valuation purposes, we continue to compare DGA to the iShares MSCI Germany Small-Cap ETF. The company currently trades on a P/E multiple of 43.1x, calculated on a last reported 12-month (LTM) earnings basis, against 13.6x for the fund. Even though the limited dividend payment of €0.15 per share constitutes a 1.0% yield, it sits above the last available 12-month trailing yield at end August 2020 of 0.24% reported by the ETF. We also note that in the case of further positive market developments, management will recommend paying out the remaining FY19 earnings as part of next year's dividend.

Historical results						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	10.6	1.2	0.73	0.72	19.6	5.0
12/17	11.2	1.2	0.76	0.77	18.8	5.4
12/18	12.0	1.6	1.00	1.00	14.3	7.0
12/19	10.1	0.8	0.31	0.15	46.1	1.0

Source: DGA accounts

Price €14.3
Market cap €23m

Share price graph



Share details

Code	DGR
Listing	Deutsche Börse Scale
Shares in issue	1.6m
Last reported net cash at 30 June 2020	€2.9m

Business description

Deutsche Grundstücksauktionen is a market leader in the auctioning of all types of properties in Germany. It expanded actively after its 1999 listing with a network of four regional auction houses, operating in Saxony, West and Northern Germany. It also has an online auction company.

Bull

- Sustained long-term demand for property, assisted by a favourable interest rate outlook.
- Clear market leader with experienced management and wide client base.
- Real estate market may be considered a safe haven by investors.

Bear

- Macroeconomic uncertainties related to coronavirus outbreak and economic downturn.
- Sellers often offer high minimum bids.
- Impact from Berlin rental cap.

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H120 Financials: Improved auction sales turnover

As Deutsche Grundstücksauktionen continues to report according to German Accounting Standards (HGB), it presents standalone financial statements only, with a single line item, representing the results of five fully owned subsidiaries. We note that as the parent company's turnover constitutes less than half (c 44% in H120) of the group total, the detailed top-down analysis of the profit and loss statement provides limited information about the group's overall revenue and earnings position.

According to DGA, demand in the German real estate market remained strong in H120, as it sold 88.7% of the properties put up for auction over the period, while in H119 this figure stood at 84.6%. DGA quickly responded to the coronavirus outbreak, which helped it weather the impact by successfully switching to a remote sales model (both by telephone and online). Overall turnover from auction sales at group level increased by 12.2% y-o-y to €59.8, with net commission reaching €5.76m (up c 2% y-o-y and above its five-year average of €5.3m). The net commission rate was down somewhat to 9.6% vs 10.6% in H119. This was partially assisted by the stronger volume attributable to Bodenverwertungs- und Verwaltungs (BVVG) of €5.3m in H120 vs €1.4m in H119.

This was driven primarily by improved turnover reported by the parent company (up 49.2% y-o-y to €26.4m in H120). Consequently, standalone revenue from auction sales increased by c 51.2% y-o-y to €2.9m. Meanwhile, total operating costs expanded by just 16.7%, with personnel costs remaining broadly stable against H119, while material costs declined by 32.1% y-o-y. Consequently, the parent company's H120 pre-tax profit reached €0.6m against a €15.5k loss in H119, according to our calculations. Although earnings reported by all DGA's subsidiaries fell short of H119 levels (described below), total group EBT and net profit improved in H120 by just 2.1% and 0.8% y-o-y, reaching €1.3m and €0.8m, respectively. This constitutes the second-best results for the first six months of the year since 2008.

Exhibit 1: Financial highlights of the parent company			
€000s, unless otherwise stated	H120	H119	change y-o-y
Turnover from auction sales (€m)*	59.80	53.30	12.2%
Net commission (€m)*	5.76	5.66	1.7%
Net commission rate*	9.6%	10.6%	-990bp
Revenue from auction sales	2,885.8	1,908.0	51.2%
Other operating income	133.7	144.7	-7.6%
Material costs	(38.2)	(56.2)	-32.1%
Labour costs	(954.2)	(918.9)	3.8%
Other operating costs	(1,281.1)	(972.8)	31.7%
Depreciation/interest etc.	(101.6)	(120.3)	-15.5%
Parent company profit	644.4	(15.5)	N/M
Profit /losses from subsidiaries, of which:	607.3	1,241.1	-51.1%
Sächsische Grundstücksauktionen	473.3	474.6	-0.3%
Norddeutsche Grundstücksauktionen	39.9	186.3	-78.6%
Plettner & Brecht Immobilien	26.2	30.2	-13.1%
Deutsche Internet Immobilien Auktionen	67.5	74.3	-9.2%
Westdeutsche Grundstücksauktionen	0.4	475.7	-99.9%
Pre-tax profit	1,251.6	1,225.6	2.1%
Income and other taxes	(405.2)	(385.6)	5.1%
Net profit	846.4	840.0	0.8%

Source: DGA accounts. Note: *Group-level figures.

It is worth noting that although overall H120 performance improved vs H119, it was mainly attributable to the Q120 results, as in Q220 the pandemic outbreak limited trade volumes. DGA and its subsidiaries successfully carried forward the strong FY19 momentum, reporting a c 37.4% y-o-y increase in auction sales volume in Q120, reaching €32.3m. In the following quarter, this figure declined to €27.4m, 8.4% below the Q219 total. This resulted in a 19.6% y-o-y decline in corresponding commission income to €2.5m in Q220 against €3.1m in Q119 and a 22.6% q-o-q fall from €3.2m in Q120.

On the back of new admissions for Q320 auctions, amounting to €36.1m and exceeding the Q319 total by c 52%, DGA expects a rebound in sales volumes in the quarter. If it retains the solid sales rate in H120 (88.7%), its overall trade volume will reach €32.0m and exceed the Q319 total of €25.2m by c 27%. Based on information from the financial statement published on 7 September 2020, the rate for auctions already completed is above the H120 level. Nevertheless, with an increased level of uncertainty in the market driven by the coronavirus, management has not provided any guidance for 2020 either on overall trade volumes and commission income or total net profit for the year.

Subsidiaries with declining trade volumes and profits

Although the parent company improved its performance in H120, none of its subsidiaries managed to replicate this success, as all reported a y-o-y decline in pre-tax profit in excess of 51% in aggregate. However, we note that there are significant differences between them.

The H120 results reported by **Sächsische Grundstücksauktionen** were close to the H119 figures, as trade volume and pre-tax profit declined y-o-y by 3.9% and 0.3% respectively. Overall sales of €12.0m rank first among all the subsidiaries, as well as pre-tax profit of €0.5m. The company held four auctions over the period and the number of assets sold increased from 172 in the previous year to 191, although it was not enough to fully offset lower property pricing. It is worth highlighting that during the live event held before the pandemic outbreak, the company reported a record-high total sales volume for a single auction.

The second-highest sales of all the subsidiaries in H120 (€9.3m) were recorded by **Plettner & Brecht Immobilien**, also the only entity reporting a y-o-y increase in trade volumes of 81.3%. The improvement was mainly attributable to the eight high-value properties sold in the brokerage business for €4.0m against €5.3m from auction sales of 56 properties (vs 64 objects generating just €5.1m in H119). However, we note that increased volume has not translated into higher profit, which fell by 13.1% y-o-y to €26.2k in H120 from €30.2k in H119.

Even though **Norddeutsche Grundstücksauktionen** and **Westdeutsche Grundstücksauktionen** held two auctions each in H120 (the same as in H119), both reported a lower number of properties sold. The former concluded transactions for 72 assets (against 89 a year earlier), with the latter reaching just 41 assets sold (against 72). Consequently, both reported trade volumes of c €5m each, against €6.1m reported by Norddeutsche Grundstücksauktionen and €9.7m by Westdeutsche Grundstücksauktionen in H119. Both companies recorded even more significant declines in pre-tax profit, which fell to €39.9k and €0.4k, respectively, from €186.3k and €475.7k in H119. According to the company, this was a function of difficult market conditions close to the consignment deadline for the summer auctions.

Exhibit 2: Performance of subsidiaries in H120

	Properties sold		Trade volume (in €m)		Pre-tax profit (in €k)	
	H120	H119	H120	H119	H120	H119
Sächsische Grundstücksauktionen	191	172	12.0	12.5	473.3	474.6
Norddeutsche Grundstücksauktionen	72	89	5.0	6.1	39.9	186.3
Plettner & Brecht Immobilien	64	64	9.3	5.1	26.2	30.2
Deutsche Internet Immobilien Auktionen	197	247	1.8	2.2	67.5	74.3
Westdeutsche Grundstücksauktionen	41	72	5.0	9.7	0.4	475.7
Total subsidiaries	565	644	33.3	35.7	607.3	1,241.1
Deutsche Grundstücksauktionen AG	132	146	26.5	17.6	644.4	(15.5)
Grand total	697	790	59.7	53.3	1,251.6	1,225.6

Source: DGA accounts

As the German government introduced social distancing measures to limit the spread of the virus, the experience of **Deutsche Internet Immobilien Auktionen** played a significant role in weathering the impact of the pandemic. One Auction of Westdeutsche Grundstücksauktionen was even carried out on DIIA's platform with solid customer interest, according to the company.

Valuation

Due to a relatively small market cap of €23m at 17 September 2020 and lack of direct peers listed on the Frankfurt Stock Exchange, we continue to compare DGA to the iShares MSCI Germany Small-Cap ETF, which tracks the performance of an index composed of small-cap German equities. With no consensus data available for either of these entities, we look at last reported 12-month earnings as a basis for comparison. DGA's P/E multiple currently stands at 43.1x against 13.6x for the fund. DGA's decision to reduce the dividend payout to just €0.15 per share, driven by the coronavirus, resulted in a dividend yield of 1.0% in 2019, against a 0.24% 12-month trailing yield for the ETF at end August 2020.

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