

ÖKOWORLD

Healthy performance fee and dividend income

Following muted results in FY18, ÖKOWORLD (ÖWAG) reported significant top- and bottom-line expansion in FY19, driven by a €2.8m improvement in performance fee income. As total assets under management (AUM) reached €1.65bn at end 2019 (up more than €554m vs 2018), the resulting management fee improved by a further €2.1m (up 21% y-o-y). Given the equity market collapse in early 2020, the performance fee this year could fall short of the 2019 level. However, this could be at least partially offset by management fees being supported by higher AUM, as ÖWAG was able to expand these further during the slowdown, to €1.68bn at end April.

Financials: €4.9m dividend from ÖKOWORLD LUX

In FY19, ÖKOWORLD reported a 33.3% y-o-y increase in revenues to €20.3m, driven by higher management fees (resulting from expanding AUM) and performance fees earned, thanks to record-high unit prices. The reported figures were further assisted by €4.9m received in dividends from its fund managing subsidiary, bringing FY19 EBIT to €13.1m, against €5.3m in FY18. ÖWAG improved its net profit for the period to €10.9m from €3.4m in the previous year, helped by a lower effective tax rate (18.9% in FY19 vs 32.9% in FY18).

Funds set new high-water marks

Driven by robust performance in broad equity markets, all funds managed by ÖKOWORLD LUX reported healthy returns in FY19, led by ÖKOWORLD KLIMA with a 37.1% return. Over the year, almost all funds recorded record-high unit prices, triggering a performance fee charge. Momentum was stalled in Q120 by the February/March coronavirus-related market collapse, followed by a rebound from April. Nonetheless, with positive market sentiment towards sustainable investments across Europe, the funds were able to win new clients during the slowdown, expanding total AUM from €1.65bn to €1.68bn at 30 April 2020.

Valuation: Price to last reported AUM at 7.2%

As consensus estimates for ÖKOWORLD are unavailable, we have chosen to compare the company based on the ratio of market cap to last reported AUM, sitting at 7.2% for ÖWAG vs the average for the peer group, including European asset managers, of 3.5%. The expected dividend payment from FY19 earnings, amounting to €0.61 per share, constitutes a 3.6% dividend yield, which is 1.7pp lower than the peer group average.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	9.2	5.2	0.60	0.51	28.3	3.0
12/17	15.8	9.7	1.02	0.60	16.7	3.5
12/18	15.3	5.1	0.50	0.40	34.0	2.4
12/19	20.3	13.5	1.54	0.61	11.0	3.6

Source: ÖKOWORLD accounts

Diversified financials

29 May 2020

Price €17.0
Market cap* €120m

*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	VVV3
Listing	Deutsche Börse Scale
Shares in issue	3.05m
Last reported net cash at end-2019	€18.7m

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 c €1.7bn at end-April 2020.

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.
- Only preference shares available to investors.
- Strong dependency on German customers.

Analysts

Milosz Papst	+44 (0)20 3077 5700
Michał Mierziak	+44 (0)20 3077 5700

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

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Financials: Healthy fund returns and growing AUM

On the back of robust equity markets (MSCI World Index up 27.7% in 2019) and positive sentiment towards sustainable investments, FY19 was one of the best years in ÖWAG's history. It reported a c 33% improvement in revenues to €20.3m, driven by increased income from both management and performance fees, with the latter growing by €2.8m, after reporting virtually none in FY18. Management fees, benefiting from increased AUM of €1.65bn at end December 2019, improved by 21% y-o-y to c €12m (based on our estimates). The company also highlighted good traction in its life insurance products business, with new contracts at end October 2019 doubling versus the prior year.

The higher AUM base resulted in higher provisions paid to distributors, driving an increase in costs of services from €4.3m in FY18 to €5.4m in FY19. The almost 46% y-o-y rise in personnel expenses partially results from a higher headcount (38 employees at 31 December 2019 vs 34 a year earlier), but also some reorganisation activity last year together with performance bonuses paid to staff. Other operating expenses, including marketing, IT, rents etc, remained broadly stable at c €2.4m.

In FY19, ÖWAG received nearly €4.9m in a dividend payment from its fund management subsidiary, ÖKOWORLD LUX, which brought EBIT to €13.1m (vs €5.3m in FY18) and almost doubled its margin (64.5% against 34.6%). Together with the profitable sale of fund units held by the company, which yielded €0.6m in FY19 (zero in FY18) and relatively low income tax (18.9% effective tax rate vs 32.9% in the previous year), ÖWAG improved its net profit for the period to €10.9m from €3.4m in FY18.

Exhibit 1: Financial highlights			
€000s	FY19	FY18	y-o-y
Revenues	20,297	15,222	33.3%
Other operating income	359	100	258.1%
Costs of services	(5,419)	(4,321)	25.4%
Personnel expenses	(4,434)	(3,040)	45.9%
Other operating expenses	(2,392)	(2,357)	1.5%
D&A	(179)	(334)	-46.3%
Income from related companies	4,860	0	N/M
EBIT	13,092	5,270	148.4%
<i>EBIT margin</i>	64.5%	34.6%	29.9pp
Income from other investments	573	0	N/M
Other interest and similar income	1	2	-49.9%
Interest and similar expenses	(216)	(214)	1.3%
EBT	13,450	5,059	165.8%
<i>EBT margin</i>	66.3%	33.2%	33.0pp
Income tax	(2,548)	(1,664)	53.2%
<i>Effective tax rate</i>	18.9%	32.9%	-13.9pp
Net profit for the period	10,902	3,396	221.0%
<i>Net income margin</i>	53.7%	22.3%	31.4pp

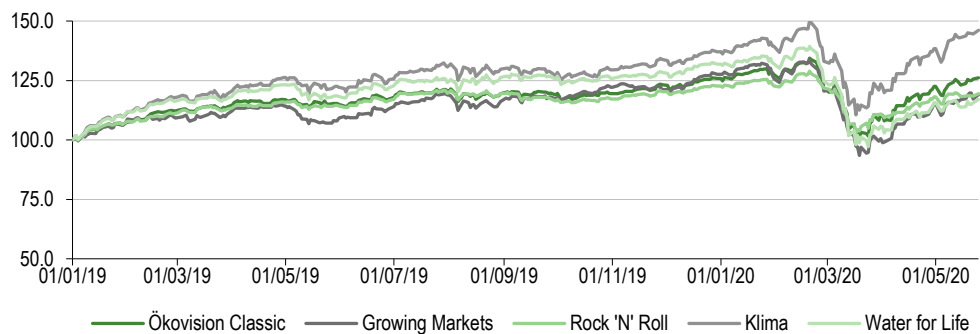
Source: ÖKOWORLD accounts. Note: We include income from related companies in operating earnings, as ÖKOWORLD LUX is a key part of company's core business activity.

With revenue structure linked to the volume and performance of managed assets, ÖWAG's results are highly dependent on equity market developments, which in early 2020 suffered from uncertainties related to the coronavirus outbreak. Between 19 February and 23 March, the MSCI World Index plummeted from 2,431.2 points to just 1,602.1 points (a 34.1% decline), reaching the lowest level since 2016. The subsequent rebound brought the index back to around 2,000 points in May 2020. However, it remains to be seen whether this is just a correction or a sustainable trend reversal. The slowdown resulting from the lockdown of economies worldwide is still in its initial phase, with the extent and durability still unknown. In such a volatile environment, it is difficult to predict ÖWAG's performance in the forthcoming months, and therefore management has provided no guidance regarding FY20 results.

Robust fund performance in FY19

Following weaker performance of funds managed by ÖKOWORLD LUX in 2018, when all posted negative returns ranging from -5% to -22%, FY19 brought a significant rebound, fuelled by positive developments in broad equity markets. ÖWAG's end-year AUM exceeded €1.65bn, while the weighted average annual return reached 27% in 2019. Over the year, all funds except for Growing Markets 2.0 (which was recovering from its weakest performance in FY18) posted new high-water marks, enabling ÖWAG to charge a performance fee. While these levels were further exceeded in early 2020 (with new record-high values set for all five funds at 20 February 2020), unit prices declined rapidly afterwards. Having said that, in April 2020 the funds started to rebound, posting positive monthly returns, which reached a double-digit percentage level for three of them (ÖKOVISION CLASSIC, Growing Markets 2.0 and Klima, see Exhibit 2). The funds also benefited from positive market sentiment towards sustainable investments. According to the German Investment Funds Association (BVI), in Q120 German sustainable funds recorded inflows of c €3.4bn, while other retail funds registered outflows amounting to €17.3bn. This trend is visible across Europe, as sustainable funds attracted €30bn overall in early 2020, while investors withdrew €165bn from other retail funds, according to Morningstar.

Exhibit 2: Funds performance since 1 January 2019 (rebased)



Source: Refinitiv

The **ÖKOWORLD ÖKOVISION CLASSIC** fund remains the largest in the company's portfolio, with total volume exceeding €1.2bn at end-December 2019, constituting c 74% of ÖWAG's AUM. The annual return in FY19 reached 25.9% against a negative 8.3% return in the previous year. Over the first four months of 2020, the fund was able to marginally increase its volume by c €21k, even though it posted a 2.73% loss ytd. In April 2020 alone, the return stood at 10.9%, bringing the unit price at 30 April to €192.5 – c 9% below the historical peak. Approximately 32.8% of the fund's assets (excluding cash) are denominated in US\$, with a further 20.6% in euros and 6.3% in SEK. It is worth noting that cash holdings constitute c 14.5% of the fund's overall volume.

The best performing (37.1% return) in FY19 and currently the second largest fund (AUM of €150.6m at end-2019) is **ÖKOWORLD KLIMA**. We note that this fund's AUM at 30 June 2019 amounted to just €58.8m, which implies that it had the highest rate of attracting new AUM of all the funds in H219. The successful investment strategy continued in early 2020, and it is the only fund that posted a minor positive return of c 1% in the first four months of the year, driven by a 12.0% rise in April alone. The fund's AUM further expanded to c €174.1m at end-April 2020. The investment scope includes shares in companies operating in energy and resource-saving businesses (25.5% of AUM at 30 April 2020), adjustment to climate changes (22.5%) and those helping to limit greenhouse gas emission (12.8%). The share of investments denominated in US\$ sits at 46%, with a further 10.2% exposure to euros and 12.3% of overall assets held in cash.

The third largest fund in FY19, with AUM at end December 2019 of €131.5m, is **ÖkoWorld Growing Markets 2.0**, which reported a healthy 27.6% return in FY19, against a negative 21.2% a

year earlier. The fund is fully invested, with cash holdings constituting c 0.4% of total assets. The higher risk profile of the fund is illustrated by the negative ytd return of 9.3% in FY20, but also in the level of redemptions, which we believe also contributed to the AUM decline to just €100.0m at end April 2020.

The only other fund whose AUM decreased between end December 2019 and April 2020 is the youngest and smallest fund in the portfolio, **ÖkoWorld Water for Life**, with total assets at 30 April 2020 amounting to €28.7m against €29.8m at 31 December 2019. The 3.7% decline is attributable to negative performance over the period, with the fund posting a -12.3% return (against a healthy 31.9% return reported in FY19), rather than redemptions. The only mixed fund in the company's portfolio, **Ökoworld Rock'n'Roll**, reported a 22.7% return in FY19 and a negative 3.7% ytd in FY20.

Exhibit 3: Summary of fund statistics

	Ytd Performance*	FY19 performance	FY18 performance	AUM (€m) 31 Dec 2019	% of AUM	AUM (€m) 30 Apr 2020	% of AUM
ÖKOWORLD ÖKOVISION CLASSIC	-2.7%	25.9%	-8.3%	1,218.1	74%	1,239.5	74%
ÖkoWorld Growing Markets 2.0	-9.3%	27.6%	-21.2%	131.5	8%	100.0	6%
Ökoworld Rock'n'Roll	-3.7%	22.7%	-5.1%	120.8	7%	133.3	8%
ÖKOWORLD KLIMA	1.0%	37.1%	-9.2%	150.6	9%	174.1	10%
ÖkoWorld Water for Life	-12.3%	31.9%	-13.4%	29.8	2%	28.7	2%

Source: ÖKOWORLD accounts. Note: *As at 30 April 2020.

Valuation

For valuation purposes, we compare ÖKOWORLD with a group of European asset managers in the equities space. However, we note that consensus estimates for ÖWAG are unavailable, and we have therefore analysed the last reported data and provide consensus figures for its peers for a broader context. Based on last reported figures, ÖWAG's market cap to AUM ratio sits at 7.2%, which is 3.7pp ahead of the peer group average. Management recommended a dividend payment of €0.61 per share, which constitutes a 3.6% dividend yield – 1.7pp below the group average. At the same time, we note that ÖWAG trades at a c 20% discount to peers based on FY19 EV/EBITDA and P/E multiples.

Exhibit 4: Peer group valuation

	Market cap	P/AUM (%) (last reported)	EV/EBITDA (x)		P/E (x)		Dividend yield (%)	
			2019	2020e	2019	2020e	2019	2020e
Ashmore Group	£2,867	4.6	11.2	9.9	16.4	16.4	4.1	4.2
Azimut Holding	€2,078	3.9	5.9	10.0	5.6	11.7	8.2	6.9
Jupiter Fund Management	£1,104	3.2	4.5	6.5	8.2	12.9	7.3	7.2
Man Group	£2,097	2.5	6.6	8.9	8.4	12.7	5.5	4.6
Impax Asset Management	£504	3.2	21.7	24.4	32.2	32.9	1.5	1.7
Peer group average		3.5	10.0	11.9	14.1	17.3	5.3	4.9
ÖKOWORLD	€120	7.2	7.6	N/A	11.0	N/A	3.65	N/A
Premium/(discount) to peers		3.7pp	(24%)		(22%)		(1.7pp)	

Source: ÖKOWORLD accounts, Refinitiv data as at 27 May 2020

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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