

ÖKOWORLD

Expanding AUM drives record high earnings

ÖKOWORLD (ÖWAG) continues to expand its assets under management (AUM), reaching €3.1bn at end-April 2021 versus €1.7bn a year earlier. The increase was attributable to the robust fund performance in 2020 and 2021 ytd to end-April as well as the successful distribution of new units. Consequently, in FY20 the group reported a €26.7m and €10.6m y-o-y increase in performance and management fee, respectively. As a result, net profit in FY20 grew to €37.4m (vs €16.7m in FY19), allowing the company to declare a record-high dividend of €1.11 per non-voting preference share.

Unit prices reaching new heights

The pandemic had only a short-term negative impact on the performance of the funds managed by ÖKOWORLD LUX, as all of them finished 2020 reporting healthy double-digit annual returns and setting new record-high unit price levels. ÖKOWORLD Ökovicision Classic, the largest fund in the portfolio (c €2.0bn AUM at end-April 2021) recorded a 14.7% return in 2020 (vs the MSCI World index at 6.3% in euro terms) and a further 7.5% in 2021 ytd to end-April (vs the MSCI World index at 11.6%).

German investment market turns green

ÖWAG benefited from the global megatrend towards sustainable investments, which led to a c 29% y-o-y increase in German green funds' AUM to €147bn in 2020, according to the German Investment Fund Association (BVI). The increase was even stronger in Q121, with AUM reaching €254bn at end-March (although the increase was partially due to fund reclassification), confirming the positive outlook for the sustainable investment market.

Valuation: Robust share price return

Despite ÖWAG's share price increasing from €17.4 at 2 June 2020 to €60.4 at 1 June 2021, the company still trades at a 17% discount to peers based on a P/E multiple calculated on FY20 reported figures. Having said that, we note that this rally also compressed the dividend yield to just 1.8% (well below the peer group average of 5.1%) and put ÖWAG's market cap to AUM ratio at 13.8% (vs the peer average of 2.9%). We note, however, that the market cap to AUM ratio does not capture the company's successful insurance and investment brokerage business.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17*	15.8	9.7	1.02	0.60	59.2	1.0
12/18*	15.3	5.1	0.50	0.40	120.8	0.7
12/19	40.4	23.2	2.40	0.62	25.2	1.0
12/20	78.7	52.6	5.35	1.11	11.3	1.8

Source: ÖWAG's accounts. Note: FY17 and FY18 figures are based on standalone financial statements.

Diversified financials

2 June 2021

Price €60.4
Market cap* €426m

*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	3.05
Last reported net cash at 31 December 2020	€62.3m

Business description

ÖKOWORLD Group's business is focused on asset management, insurance brokerage and advisory services. Founded in 1975, it is one of Germany's pioneers in socially responsible investing (SRI) and ethical-ecological investment advice. It preserved its successful core investment principles and reached AUM of c €3.1bn at end April 2021.

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

- Only preference shares available to investors.
- Strong dependency on German customers.
- High valuations in equity markets.

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Financials: Performance fee drives record earnings

ÖWAG's FY20 results for the first time included the consolidated financial statements for the group, which in addition to the parent company includes ÖKOWORLD LUX, the investment fund manager; versiko, the asset management advisory business; and The Return of the Sun, the manager of the group's assets. We note that ÖWAG provided comparable data for FY19 only, with limited backward comparability of earlier results. Previously in its standalone revenue line ÖWAG predominantly recognised sales in its brokerage business, as well as the part of the management and performance fee, which was passed on to distributors. Moreover, it presented only a single line item representing income from subsidiaries that was received as dividends. In both FY20 and FY19, ÖWAG recognised €4.86m of such income in the standalone financial statements.

On the back of a healthy performance from both the investment fund and insurance brokerage segments, ÖWAG almost doubled its consolidated revenues in FY20 to €78.7m versus €40.4m in FY19. As the AUM of investment funds managed by ÖKOWORLD LUX expanded from €1.65bn at end-2019 to €2.53bn at 31 December 2020 (it currently stands at €3.1bn), the corresponding income (including management fee) increased by €10.6m or 40% y-o-y. We note that the management fee attributable only to the largest fund in the portfolio – ÖKOWORLD Ökovision Classic – increased by €6.5m y-o-y, followed by ÖKOWORLD Klima with a €3.2m (187%) y-o-y improvement. Meanwhile, due to the robust performance of the funds in 2020, which all set new record-high unit prices, the performance fee income increased by €26.7m y-o-y and according to our calculations stood close to €30m in FY20 (please see next section for details).

We note that personnel expenses increased by 62% y-o-y to €11.8m in FY20, despite a slight decline in the numbers employed to 53 at end-2020 versus 57 a year earlier. This was mainly due to the €4.1m rise in variable remuneration components, dependent on the company's overall performance. Additionally, costs of services, which mainly include distribution fees dependent on the sales volume of new fund units by distributors, increased by 40% y-o-y to €9.6m. Consequently, FY20 group EBIT and net income increased to €53.0m and €37.4m, respectively (vs €22.8m and €16.7m in FY19), which enabled ÖWAG to announce a record-high dividend payment of €1.11 per non-voting preference share, which (following the strong price rally in ÖWAG's shares since September 2020) translates into a 1.8% yield.

Exhibit 1: Consolidated group financial highlights

(€000)	2020	2019	y-o-y
Revenues	78,662	40,425	94.6%
Increase/reduction in work in progress	(838)	992	N/A
Other operating income	131	428	-69.5%
Costs of services	(9,611)	(6,886)	39.6%
Personnel expenses	(11,780)	(7,277)	61.9%
Other operating expenses	(3,397)	(4,652)	-27.0%
D&A	(157)	(190)	-17.3%
EBIT	53,010	22,840	132.1%
<i>EBIT margin</i>	<i>67.4%</i>	<i>56.5%</i>	<i>10.9pp</i>
Income from other investments	32	651	-95.1%
Other interest and similar income	5	6	-12.5%
Interest and similar expenses	(445)	(279)	59.4%
PBT	52,603	23,217	126.6%
<i>PBT margin</i>	<i>66.9%</i>	<i>57.4%</i>	<i>9.4pp</i>
Income tax	(15,251)	(6,474)	135.6%
<i>Effective tax rate</i>	<i>29.0%</i>	<i>27.9%</i>	<i>1.1pp</i>
Net profit for the period	37,352	16,744	123.1%
<i>Net income margin</i>	<i>47.5%</i>	<i>41.4%</i>	<i>6.1pp</i>

Source: ÖWAG accounts

Management expects positive market sentiment towards sustainable investments to strengthen even further in the coming years, providing attractive investment opportunities in the renewable energy segment, energy efficient production and services and sustainable transport and e-mobility.

According to the BVI, sustainable investment open-ended funds had total AUM of €147bn at end-2020, which represents c 29% (€33bn) y-o-y growth. The outlook for the sector looks even more favourable, as this figure increased to €254bn at the end of Q121 after a €107bn increase over a single quarter (although the increase was partially due to fund reclassification). The rise corresponds with the expanding share of green funds in the German investment fund market from 5% at end-2020 to 8% at end-March 2021.

Sustainable investment focus drives robust returns

The funds managed by ÖKOWORLD LUX quickly recovered from the initial pandemic hit, posting robust returns in 2020 ranging from 12.2% to 46.1%. They also carried the strong momentum into 2021, posting positive ytd returns to end-April 2021, which together with the healthy level of new funds inflow, helped overall AUM to reach €3.1bn at 30 April 2021, versus €1.7bn a year earlier. According to management, the funds successfully mitigated the impact of the pandemic through their active portfolio management, accumulating significant cash positions in the initial phase of the pandemic outbreak which were then utilised to purchase favourably priced shares (with an increased focus on resilient sectors, including IT and tech-enabled businesses). However, we note that the funds have significant exposures to the US dollar, which showed relative weakness versus the euro in 2020, which partially offset the robust investment results. We note that one-year returns calculated as at end-April 2021 are inflated by a low base effect (the weighted average rate is 33%) and therefore we look at ytd returns as at end-April 2021 and the one-year performance as at 31 December 2020.

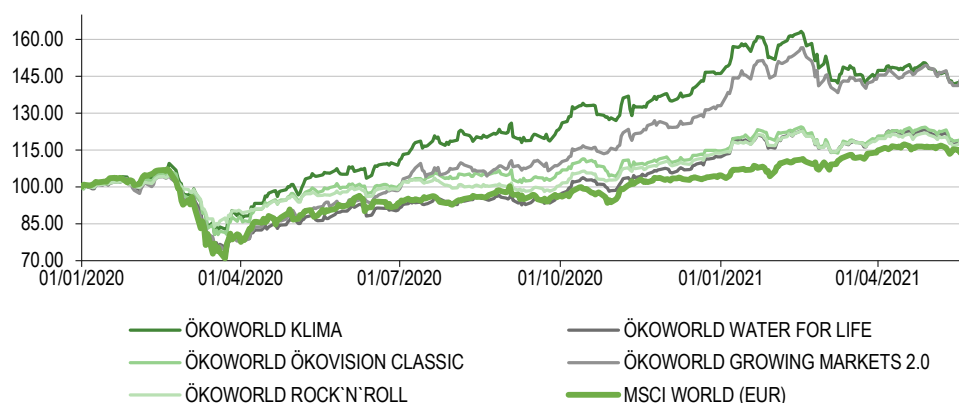
Exhibit 2: Summary of funds statistics

		30-Apr-21		31-Dec-20		30-Apr-20
	AUM (€m)	ytd return	1Y return	AUM	1Y return	AUM (€m)
ÖKOWORLD Ökovision Classic	1,970.0	7.5%	26.6%	-	14.7%	1,239.5
ÖKOWORLD Klima	569.72	1.4%	46.8%	-	46.1%	174.1
ÖKOWORLD Rock'n'Roll	268.16	6.5%	25.8%	-	13.7%	133.3
ÖKOWORLD Growing Markets 2.0	229.29	11.6%	64.1%	-	33.0%*	100.0
ÖKOWORLD Water for Life	58.87	8.8%	39.2%	-	12.2%	28.7
TOTAL:	3,096.0			2,528.0		1,675.6

Source: ÖWAG. Note: Return of C-Tranche, dedicated to non-corporate clients. D-Tranche (Corporate Clients) – 34% return, T-Tranche (semi-corporate clients) – 57.7% return.

ÖKOWORLD Ökovision Classic remains the largest fund in the ÖWAG's portfolio with a c 62% share as its AUM approaches the €2bn mark. In 2020 the fund posted a healthy 14.7% return, followed by 7.5% over the first four months of 2021. The fund benefited from the V-shaped rebound in global equity markets (the MSCI World Index posted a 6.3% return in euro terms in 2020) as it remains almost fully invested (with cash slightly below 3% of the fund's assets). Over the past 12 months it has increased its exposure to energy efficiency solutions, which accounted for 18% of the portfolio at end April 2021 versus 13% a year earlier. The other key investment areas include demography and medicine (13.9% share), IT (13.5%) and sustainable mobility and transport (12.1%).

The second largest fund in the portfolio is **ÖKOWORLD Klima**, with €570m AUM at end-April 2021, compared to €174m 12 months earlier. It was also the best performing fund in 2020, posting a 46.1% return, as it successfully deployed its cash position to reduce it from 12.3% of the portfolio value at end-April 2020 to just 3.6% per the latest available data. Having said that, we note that the 1.4% return reported by the fund over the first four months of 2021 is the lowest among the funds managed by ÖKOWORLD LUX. Its key investment areas remain broadly stable as they include businesses focused on energy saving products and services (22.8%), energy and resource efficiency of processes (16.7%) and adaptation to climate change (13.4%).

Exhibit 3: Funds performance since 1 January 2020 (rebased)


Source: Refinitiv

The best performing fund in 2021 ytd to end-April is **ÖKOWORLD Growing Markets**, as it is the only fund to post a double-digit return (11.6%) over the period. The fund closed 2020 with a 33% return, ranking it second among the funds. Its two largest exposures in terms of investment themes at end-April 2021 are technical development, which we understand represents exposure to the drive towards more energy efficient products (24.1% share in the fund's AUM), and IT segments (10.7%).

Valuation

On the back of the robust fund performance and significant earnings improvement reported by the group in 2020, ÖWAG's share price rallied to €60.4 as at 1 June 2021 close, which represents a 58.1% ytd increase and an over 247% one-year return. To put that into context, we continue to compare ÖWAG's valuation with a group of European asset managers in the equities space. Having said that, we note that consensus data for ÖWAG is unavailable and therefore we use the last reported figures (as at end-2020). Based on the P/E multiple, the company trades at a 17% discount to peers. We have also compared ÖWAG's market cap to AUM ratio to the peer average (based on Q121 data, except for ÖWAG, which is to end-April 2021), which shows that ÖKOWORLD is trading at a significant premium to peers in these regards. However, we note that this could be at least partially attributable to the strong insurance and investment funds brokerage business, which is not captured in AUM. Even though the company is planning the highest dividend distribution in its history (€1.11 per share), due to its robust valuation the dividend yield of 1.8% sits well below the peer group average of 5.1%.

Exhibit 4: Peer group valuation

	Mcap (LCYm)	Mcap/AUM (%) (last reported)*	P/E (x)			Dividend yield (%)		
			2020	2021e	2022e	2020	2021e	2022e
Ashmore Group	2,847	3.2	14.3	15.1	16.2	4.2	4.3	4.4
Azimut Holding	2,905	4.0	7.6	9.3	9.3	4.9	5.3	5.5
Jupiter Fund Management	1,541	2.6	14.6	11.0	10.3	7.2	6.3	6.6
Man Group	2,568	2.0	18.6	8.1	7.8	4.2	4.7	5.2
Peer group average		2.9	13.8	10.9	10.9	5.1	5.1	5.4
ÖKOWORLD	426	13.8	11.3	N/A	N/A	1.8	N/A	N/A
Discount/premium to peers		10.9pp	(17%)	N/A	N/A	(3.3pp)	N/A	N/A

Source: ÖWAG accounts, Refinitiv data at 2 June 2021. Note: *Peer group AUM as at end-March 2021, ÖWAG as at end-April 2021.

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