

27 September 2022

The Grounds AG

Rating	Buy (Buy)
Share price (EUR)	1.96
Target price (EUR)	2.60 (3.50)
Bloomberg	AMMN GY
Sector	Real Estate

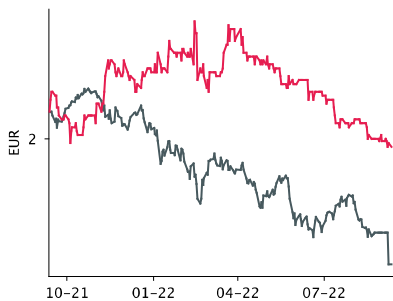
Share data

Shares out (m)	17.8
Daily volume shs (m)	0.0
Free float (%)	27.00
Market cap (EUR m)	35
EV (EUR m)	80
DPS (EUR)	0.00
Dividend yield (%)	0.0
Payout ratio (%)	0.0

Performance

ytd (%)	-13.2
12 months (%)	-9.2
12 months rel. (%)	29.0
Index	SDAX

Share price performance



— The Grounds AG
— Price rel. to SDAX – Price Index

Source: Bloomberg

Next triggers

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FY 2022 targets confirmed

The Grounds published strong H1 2022 results as Revenues increased from EUR 4.9m to EUR 21.4m and EBIT reached EUR 2.9m (vs. H1 2021: EUR 1.6m). The Grounds also confirmed its FY 2022 forecast of Revenues of between EUR 35m and EUR 38m and EBIT in the range of between EUR 8m and EUR 9m which we regard as achievable. Note that the forecasted EBIT depends on the valuation development of the property portfolio. Main drivers for FY 2022 should be the sale of properties from its privatization portfolio, rental income contribution from the property portfolio as well as profits from the sale of properties from its development portfolio (mainly Lenne Quartier in Magdeburg, Property Garden in Magdeburg and Erkner). We have updated our valuation model and included the higher interest rate environment. Given lower peer group multiples we have derived a new TP of EUR 2.60 and confirm our Buy rating. The TP is calculated from the average of the peer group analysis and the DCF model.

H1 2022 results

Revenues significantly increased from EUR 4.9m to EUR 21.4m in H1 2022. Main drivers were the successful sale of the project development “Terra Homes” in Erkner, the complete sale of the residential units of the “Property Garden” project in Magdeburg and the sale of 29 units in the area of portfolio development (sales volume of EUR 7.3m). Revenues from the sale of properties contributed by c. 95 % to H1 2022. Note that Rental Income from the property portfolio and the privatization portfolio increased by 28% yoy to EUR 0.9m. EBIT improved by 78% to EUR 2.9m and Net Profit reached EUR 1.4m. In H1 2022 The Grounds realized a valuation gain of EUR 0.2m (vs. H1 2021: EUR 0.6m).

Guidance for FY 2022

The Grounds also confirmed its FY 2022 forecast of Revenues of between EUR 35m and EUR 38m (qbe: EUR 37.1m) and EBIT in the range of between EUR 8m and EUR 9m (qbe: EUR 8.1m). The FY 2022 guidance does not include the additional earnings upside of up to EUR 9.75m from the debtor warrant for the logistics property in Hangelsberg which was sold at the end of 2020. The Grounds has currently notarised further sales from the portfolio development with a volume of EUR 5.1m which is expected to contribute to FY 2022 earnings.

Key figures		2020	2021	2022e	2023e	2024e
Sales	EUR m	31	32	37	44	80
EBITDA	EUR m	6	9	8	10	16
EBIT	EUR m	6	9	8	10	15
EPS	EUR	0.22	0.29	0.23	0.29	0.47
Sales growth	%	124.3	1.0	17.5	18.2	81.2
EBIT growth	%	210.9	50.2	-12.2	18.6	61.7
EPS growth	%	n.m.	29.1	-19.8	25.6	62.5
EBITDA margin	%	19.7	29.6	22.2	22.2	19.6
EBIT margin	%	19.5	29.0	21.7	21.8	19.4
Net margin	%	11.5	16.1	11.0	11.7	12.0
EV/Sales	ratio	3.15	3.03	2.18	1.69	0.71
EV/EBITDA	ratio	16.0	10.3	9.8	7.6	4.1
EV/EBIT	ratio	16.1	10.5	10.0	7.7	3.5
P/E	ratio	8.9	6.9	8.5	6.8	4.2
P/BV	ratio	1.9	1.3	1.1	1.0	0.7
Dividend yield	%	0.0	0.0	0.0	0.0	0.0

Source: Bloomberg, Company data, Quirin Privatbank estimates

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H1 2022 results

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H1 2022 results

EURm	H1 2022	H1 2021	% yoy
Revenues	21.4	4.9	334.3%
EBIT	2.9	1.6	78.1%
Net profit	1.5	0.04	n.m.
Net profit after minorities	1.4	0.04	n.m.
EPS undiluted (EUR)	0.08	0.00	n.m.

Source: The Grounds , Quirin Privatbank

Further projects post the reporting date

The Ground acquired a 5,560 sqm site in Königs Wusterhausen where it plans to realize a residential construction project of around 6,600 sqm usable space. The transfer of the risks and rewards of ownership is expected to take place in late September 2022.

In August 2022 The Grounds acquired a residential building with 22 apartments in Berlin-Lichtenberg. The Grounds plans to create four attic apartments in the existing building and intends the construction of 23 residential units in a second building in the courtyard. The plan is to keep the 22 apartments in its portfolio and offer four new attic apartments and the 23 apartments in the new building to owner-occupiers and investors for purchase.

Valuation

Our valuation is based upon a peer group analysis and a DCF model. While we have derived a fair value of EUR 2.71 from the peer group analysis we have calculated a fair value of EUR 2.48 from the DCF model. Our target price of EUR 2.60 (old: EUR 3.50) is derived from the average of the calculated two fair values. Given an upside of around 30% we recommend buying the shares.

Peer Group Analysis

Our Peer Group Analysis is based upon a multiples comparison of The Grounds with other companies with a similar business focus, only taking into account P/E multiples as well as EV multiples (EV/Sales and EV/EBIT). Our peer group consists of Accentro Real Estate, Helma Eigenheimbau, Instone Real Estate, Noratis, Traumhaus and UBM Development. Amongst the listed companies in the real estate sector there is no company with the same business model as The Grounds business activities consist of portfolio management, development and privatization. Note that most of the peers are active as pure project developers or are also holding and managing a property portfolio.

In terms of EV/EBIT The Grounds trades with a discount between 17% and 66% to the median on the remaining selected 2022e, 2023e and 2024e multiples to its peer group.

In order to arrive at a fair equity value for The Grounds we used the mean valuation based on the three most important ratios P/E, EV/Sales and EV/EBIT. These ratios were weighted equally and multiplied with the company's individual prospected figures for 2022e, 2023e and 2024e. To obtain a fair value of equity using the enterprise value, net debt has to be subtracted. Dividing by the number of shares and computing the median results in the fair equity value per share of EUR 2.71.

Peer Group Valuation for The Grounds

Company	Price	Market Cap (EUR m)	P/E			EV/Sales			EV/EBIT		
			22e	23e	24e	22e	23e	24e	22e	23e	24e
ACCENTRO REAL ESTATE AG	2.2	72.0	3.8x	3.4x	3.5x	2.5x	2.4x	2.2x	12.4x	11.3x	11.4x
HELMA EIGENHEIMBAU AG	35.8	142.4	7.0x	6.3x	5.2x	0.9x	0.9x	0.8x	11.7x	10.7x	9.2x
INSTONE REAL ESTATE GROUP SE	8.6	404.6	7.4x	7.2x	5.6x	1.1x	1.0x	0.7x	11.0x	11.5x	7.5x
NORATIS AG	14.3	68.9	6.5x	7.8x	7.1x	4.9x	4.5x	4.1x	19.2x	19.7x	17.8x
TRAUMHAUS AG	8.6	42.3	6.6x	5.9x	6.0x	0.7x	0.6x	0.5x	7.9x	6.8x	7.4x
UBM DEVELOPMENT AG	28.4	213.7	9.6x	7.1x	6.4x	3.8x	2.9x	2.6x	20.7x	14.7x	14.1x
Median			6.8x	6.7x	5.8x	1.8x	1.7x	1.5x	12.1x	11.4x	10.3x
The Grounds	2.0	34.9	8.5x	6.8x	4.2x	2.2x	1.7x	0.7x	10.0x	7.7x	3.5x
Relative to median			26%	1%	-28%	20%	0%	-56%	-17%	-32%	-66%
Implied EV			27.8	34.4	48.3	67.1	73.8	121.2	97.3	108.9	158.7
Net debt						45.5	39.0	18.8	45.5	39.0	18.8
Fair equity value			27.8	34.4	48.3	21.6	34.8	102.4	51.8	69.8	139.9
Fair value per share			1.6	1.9	2.7	1.2	2.0	5.7	2.9	3.9	7.9
Target price			2.71								

Source: Quirin Privatbank, Bloomberg

DCF model

We have derived a target price of EUR 2.48 from a DCF model valuation. The key parameters of the model are as follows:

- We expect high sales growth in 2022e, 2023e and 2024e due to forward sales and finished projects. EBIT margin should come down to c. 11% in 2031e. Compared to 2023e the contribution from its privatization portfolio should be lower as the main part is expected to be sold within 2022e. As we do not expect the project pipeline to be refilled by new projects sales growth and EBIT margin should slow down.
- As we do not expect further acquisitions for the property portfolio we do not assume any CAPEX from 2022e onwards.
- Tax rate of 30%
- Out terminal value is based on the assumption of a growth rate of 0.5% consistently.
- We calculated a WACC of around 6.27% (Equity ratio: 45%; risk free rate: 3.0% and company beta: 1.1). The model results to an equity value of c. 44m (EUR 2.48 per share).

DCF model for The Grounds

(EUR m)	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TV
Sales	37	44	80	39	40	42	43	43	44	44	
growth yoy	17.5%	18.2%	81.2%	-51.3%	4.2%	3.5%	2.0%	2.0%	10%	10%	
EBIT	8	10	15	6	7	7	6	6	5	5	
EBIT margin	21.7%	21.8%	19.4%	15.1%	16.9%	15.6%	14.3%	13.1%	11.8%	10.5%	
Taxes	-2.4	-2.9	-4.6	-1.8	-2.0	-2.0	-1.8	-1.7	-1.6	-1.4	
Tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	
Depreciation	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	
% of sales	0.5%	0.4%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	
Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
% of sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Δ NWC	10.2	2.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
% of sales	-27.4%	-5.4%	-0.2%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	
FCF	16.0	9.2	11.1	4.4	5.0	4.8	4.5	4.2	3.8	3.5	61.0
growth yoy	nm	-42.4%	21.1%	-60.3%	12.1%	-4.2%	-6.0%	-6.6%	-8.3%	-9.3%	0.5%
PV FCF	15.7	8.5	9.7	3.6	3.8	3.5	3.1	2.7	2.3	2.0	34.7

PV Forecast Period	55	Sensitivity Analysis					
PV Terminal Value	35	Terminal growth rate					
		-0.5%	0.0%	0.5%	1.0%	1.5%	
		5.64%	2.50	2.68	2.90	3.16	3.49
		5.96%	2.33	2.49	2.68	2.90	3.18
Enterprise value	90	WACC 6.27%	2.17	2.31	2.48	2.68	2.91
- Net Debt / Net Cash	45	6.58%	2.03	2.16	2.30	2.47	2.68
- Pension Provisions	0	6.90%	1.90	2.01	2.14	2.29	2.47
Equity value	44						
Number of shares	17.8						
Value per share (€)	2.48	Risk free rate	3.00%	Equity ratio		45%	
		Cost of debt	5.00%	Company beta		1.1	
		Market Premium	6.00%	WACC		6.27%	

Source: Quirin Privatbank

Profit & loss statement

Profit & loss statement (EUR m)	2020	YOY	2021	YOY	2022e	YOY	2023e	YOY	2024e	YOY
Sales	31.3	124.3 %	31.6	1.0 %	37.1	17.5 %	43.9	18.2 %	79.5	81.2 %
Unfinished Goods	0.0		0.0		0.0		0.0		0.0	
Other own work capitalized	0.0		0.0		0.0		0.0		0.0	
Other operating earnings	0.1		0.8		0.8		0.8		0.8	
Cost of goods	-24.9		-21.5		-29.4		-32.8		-67.6	
Gross profit	31.3		32.4		37.9		44.7		80.3	
Personnel expenses	-1.0		-2.0		-2.0		-2.0		-2.0	
Depreciation	-0.1		-0.2		-0.2		-0.2		-0.2	
Other operating expenses	-1.8		-2.5		-1.7		-1.7		-1.8	
EBITDA	6.2	208.8 %	9.3	51.5 %	8.2	-11.9 %	9.7	18.2 %	15.6	60.6 %
EBITDA margin (%)	19.71		29.57		22.16		22.15		19.63	
EBIT	6.1	210.9 %	9.2	50.2 %	8.1	-12.2 %	9.5	18.6 %	15.4	61.7 %
EBIT margin (%)	19.52		29.03		21.71		21.77		19.42	
Net interest	-1.0		-2.1		-2.3		-2.3		-1.8	
Income from Participations	0.1		0.1		0.8		0.0		5.1	
Net financial result	-0.9		-2.1		-1.5		-2.3		3.3	
Exceptional items	0.0		0.0		0.0		0.0		0.0	
Pretax profit	5.1	n.m.	7.0	37.6 %	5.8	-17.7 %	7.3	25.8 %	13.6	86.9 %
Pretax margin (%)	16.37		22.31		15.64		16.63		17.15	
Taxes	-1.1		-2.0		-1.7		-2.2		-4.1	
Tax rate (%)	21.69		28.00		30.00		30.00		30.00	
Earnings after taxes	4.0		5.1		4.1		5.1		9.5	
Minorities	0.4		0.0		0.0		0.0		0.0	
Group attributable income	3.6	n.m.	5.1	41.6 %	4.1	-19.8 %	5.1	25.6 %	9.6	86.5 %
No. of shares (m)	17.8		17.8		17.8		17.8		17.8	
Earnings per share (EUR)	0.22	n.m.	0.29	29.1 %	0.23	-19.8 %	0.29	25.6 %	0.47	62.5 %

Source: Company data, Quirin Privatbank estimates

Balance sheet

Balance sheet (EUR m)	2020	YOY	2021	YOY	2022e	YOY	2023e	YOY	2024e	YOY
Assets										
Cash and cash equivalents	0.6		2.4		10.8		16.0		18.1	
Accounts receivables	0.1		2.7		2.7		2.7		2.7	
Inventories	32.2		38.0		27.1		24.8		24.6	
Other current assets	32.8		18.7		18.7		18.7		18.7	
Tax claims	0.0		0.0		0.0		0.0		0.0	
Total current assets	65.8	209.7 %	61.8	-6.0 %	59.4	-3.9 %	62.2	4.7 %	64.2	3.1 %
Fixed assets	0.1		0.3		0.3		0.3		0.3	
Goodwill	1.9		1.9		1.9		1.9		1.9	
Other intangible assets	0.0		0.0		0.0		0.0		0.0	
Financial assets	14.0		31.1		33.1		34.1		35.1	
Deferred taxes	2.0		1.8		1.8		1.8		1.8	
Other fixed assets	3.5		6.0		6.7		6.7		0.4	
Total fixed assets	21.6	93.8 %	41.1	89.9 %	43.7	6.5 %	44.7	2.3 %	39.5	-11.7 %
Total assets	87.4	169.7 %	102.9	17.7 %	103.2	0.2 %	107.0	3.7 %	103.7	-3.1 %
Equity & Liabilities										
Subscribed capital	17.8		17.8		17.8		17.8		23.1	
Reserves & other	2.0		5.8		5.8		5.8		5.8	
Revenue reserves	0.2		0.2		0.2		0.2		0.2	
Accumulated other comprehensive	11.0		16.6		20.6		25.8		35.3	
Shareholder's equity	18.5	68.6 %	27.9	50.9 %	32.0	14.7 %	37.1	16.1 %	51.9	39.9 %
Minorities	1.9		0.6		0.6		0.6		0.5	
Shareholder's equity incl. minorities	20.4	69.7 %	28.5	39.9 %	32.5	14.3 %	37.7	15.7 %	52.4	39.3 %
Long-term liabilities										
Pension provisions	0.0		0.0		0.0		0.0		0.0	
Financial liabilities	18.4		37.2		36.5		35.8		18.3	
Tax liabilities	2.6		5.5		5.5		5.5		5.5	
Other liabilities	0.5		0.4		0.0		0.0		0.0	
Total long-term debt	21.5	399.9 %	43.0	100.1 %	42.0	-2.5 %	41.3	-1.7 %	23.8	-42.4 %
Short-term debt										
Other provisions	2.4		0.9		2.0		2.0		2.0	
Trade payables	1.2		1.2		1.2		1.2		1.2	
Financial debt	30.9		20.4		19.8		19.2		18.6	
Other liabilities	11.1		8.9		5.6		5.6		5.6	
Total short-term debt	45.6	182.8 %	31.4	-31.1 %	28.6	-8.8 %	28.0	-2.1 %	27.4	-2.1 %
Total equity & liabilities	87.4	169.7 %	102.9	17.7 %	103.2	0.2 %	107.0	3.7 %	103.7	-3.1 %

Source: Company data, Quirin Privatbank estimates

Financial key ratios

Key ratios	2020	2021	2022e	2023e	2024e
Per share data (EUR)					
EPS	0.22	0.29	0.23	0.29	0.47
Book value per share	1.0	1.6	1.8	2.1	0.0
Free cash flow per share	-2.1	-0.4	0.5	0.4	0.2
Dividend per share	0.00	0.00	0.00	0.00	0.00
Valuation ratios					
EV/Sales	3.15	3.03	2.18	1.69	0.71
EV/EBITDA	16.0	10.3	9.8	7.6	4.1
EV/EBIT	16.1	10.5	10.0	7.7	3.5
P/E	8.9	6.9	8.5	6.8	4.2
P/B	1.9	1.3	1.1	1.0	0.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Growth					
Sales growth (%)	124.3	1.0	17.5	18.2	81.2
EBITDA growth (%)	208.8	51.5	-11.9	18.2	60.6
EBIT growth (%)	210.9	50.2	-12.2	18.6	61.7
EPS growth (%)	n.m.	29.1	-19.8	25.6	62.5
Profitability ratios					
EBITDA margin (%)	19.7	29.6	22.2	22.2	19.6
EBIT margin (%)	19.5	29.0	21.7	21.8	19.4
Net margin (%)	11.5	16.1	11.0	11.7	12.0
ROCE (%)	14.6	12.8	10.8	12.1	20.3
Financial ratios					
Total equity (EUR m)	18.5	27.9	32.0	37.1	51.9
Equity ratio (%)	21.1	27.1	31.0	34.7	50.1
Net financial debt (EUR m)	48.7	55.2	45.5	39.0	18.8
Net debt/Equity	0.2	0.3	0.3	0.3	0.5
Interest cover	5.6	4.0	3.4	4.0	8.1
Net debt/EBITDA	7.9	5.9	5.5	4.0	1.2
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Working Capital (EUR m)	31.1	38.8	28.7	26.3	26.2
Working capital/Sales	0.99	1.23	0.77	0.60	0.33

Source: Company data, Quirin Privatbank estimates

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The levels of change expressed in each rating categories are:

BUY > +10%

HOLD <=-10% and < = +10%

SELL > -10%.

Analyst certification

Katharina Schmenger, financial analyst, hereby certifies that all of the views expressed in this report accurately reflect my personal views about any and all of the subject securities or issuers discussed herein. In addition, I hereby certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this research report, nor is it tied to any specific investment banking transaction performed by the Bank or its affiliates.

Price and Rating History (last 12 months)

Date	Price target-EUR	Rating	Initiation
27.09.2022	2.60	Buy	
14.04.2022	3.50	Buy	
25.08.2021	3.50	Buy	25.08.2021

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