EDISON Scale research report - Initiation

Consus Real Estate

Real estate

22 August 2018

Well-positioned to accelerate growth

As Germany's recently established largest residential developer, Consus already has an unrivalled €5.3bn pipeline of low-risk projects, which are strategically located in cities where robust demand for its end-product is underpinned by long-term undersupply. The forward sale of its developments to institutional investors provides revenue and cash flow visibility, while also limiting funding requirements. The shares trade at a 26% P/E and 50% EV/EBITDA discount vs the peer group based on FY19 consensus estimates.

Favourable market fundamentals

Consus relies on an innovative model, using digitalisation and standardisation at every stage of the development process to cost-effectively 'mass-produce' modern residential assets. Its projects are concentrated in Germany's nine fastest growing cities, which currently face a considerable shortage of residential dwellings, resulting in low vacancy rates combined with fast rising rents and property prices. Until recently, the development business was complemented by a €386m commercial buy-and-hold portfolio generating steady rental income. Most of these assets were acquired as an opportunistic purchase and the company has already capitalised on it with the recent profitable divestment.

De-risked development pipeline and attractive returns

The company has a solid track record of securing the sale of its developments at the planning stage to institutional investors that trust in its execution. The current pipeline has a Gross Development Value (GDV) of €5.3bn (March 2018), of which 27% has been forward sold. Consus's recent acquisitions demonstrate its ability to source land in a tight market, which bodes well for the target list of sites with an estimated GDV of €4.8bn. Management expects the projects to continue achieving a target EBIT margin (pre-PPA) of 20% and ROCE of 30%.

Valuation: Discount to peer group

Although Consus is sensitive to the global macroeconomic climate, its forward sale agreements with staggered payments provide significant revenue and cash flow visibility over the medium term. The shares trade at a 29% P/E premium and 34% EV/EBITDA discount vs the peer group based on FY18 consensus estimates. However, for FY19 estimates the shares trade at a discount based on both metrics.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	215.0	0.9	0.01	0.0	N/A	N/A
12/18e	840.9	83.8	0.44	0.0	19.2	N/A
12/19e	1,269.0	192.0	0.93	0.0	9.1	N/A
12/20e	1778.9	266.0	1.23	0.0	6.9	N/A

Source: Bloomberg consensus as at 2 August 2018. Note: Consensus is based on the estimates of a single analyst (Hauck & Aufhäuser). Pro forma data for FY17.

Price	€8.46
Market cap	€830m

Share price graph

Share details

Code	CC1
Listing	Deutsche Börse Scale
Shares in issue	98.05m
Last reported net debt as at 31 March 2018	€1.5bn

Business description

Consus Real Estate, based in Berlin, is the leading, listed residential real estate developer in Germany. The company's development portfolio consists of 49 projects across nine cities with a gross development value of €5.3bn. It also owns a small commercial assets portfolio.

Bull

- Supply shortage in the German residential market.
- Cost-effective and lower-risk business model.
- Extensive development pipeline.

Bear

- Lower selling prices due to forward sale model.
- Bottlenecks in the German residential market.
- Dependency on institutional clients.

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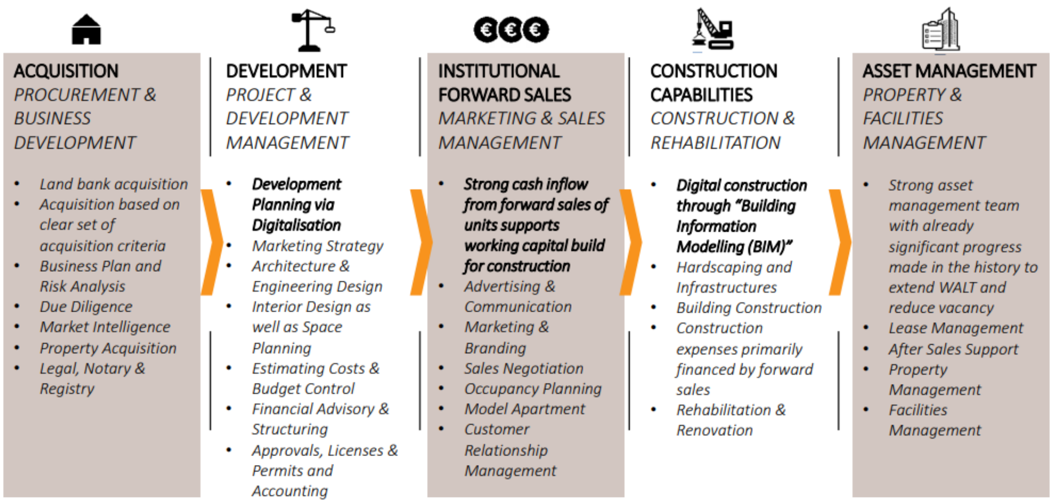
Company description: The German real estate factory

Consus Real Estate (Consus) is a German real estate developer, headquartered in Berlin and operating across the nine largest German cities (Berlin, Dresden, Leipzig, Munich, Stuttgart, Frankfurt, Cologne, Düsseldorf and Hamburg). The current capital group was created as a result of the sizeable acquisition of CG Gruppe conducted in 2017. CG is one of the leading property developers in Germany, with a broad project pipeline for the upcoming years. The transaction was structured as a non-cash capital increase with a mixed non-cash contribution consisting of newly issued shares and debt issue. In 2017 Consus also acquired GxP German Properties, a commercial property corporation with a portfolio of 12 real estate properties. However, this transaction was considered an opportunistic investment, which led to the profitable disposal of GxP announced on 3 August 2018.

The company currently holds interests in a real estate portfolio of c €5.3bn, with further expansion opportunities resulting from already identified targets that would allow the company to almost double its portfolio size (by €4.8bn). Consus currently operates predominantly in the residential development segment (through CG Gruppe), where it is looking for build-to-sell opportunities (based on agreements with institutional investors). The company has created a well-integrated and self-funded business model, supported by a cash flow recycling approach. It also owns three commercial properties for rental income-generation purposes.

Exhibit 1: Consus business model



Source: Consus

Residential build to sell becoming the primary focus

The residential development segment represented 85% of the company's pro forma FY17 sales. With the sale of a commercial asset portfolio in June 2018 and the sale of its stake in GxP German Property AG in August 2018, Consus has positioned itself as a focused pure play real estate developer in Germany's Top 9 cities. The company's commitment to the residential business is illustrated by its announcement on 2 August 2018 of an agreement to increase its stake in CG Gruppe (its property development subsidiary) from 59.1% to 75% on a fully diluted basis.

Consus specialises in the development of highly standardised rental apartment blocks with one- to two-bedroom apartments of 50-70 sqm. It is targeting the market segment, which currently exhibits the highest demand, rather than focusing on high-end luxury apartments designed for individual unit sales to private customers. Its unified approach towards construction works, as well as a bottom-up cost discipline, limits the expected average all-in-cost per sqm (targeted at €2,000–2,500 excluding land costs), simplifying the business plan and risk analysis for new capital outlays. The company has adopted a digital tool called Building Information Modelling (BIM), which helps reconcile all the project's features as well as evaluate the potential impact of project modifications. This fully integrated real estate platform covers the entire value chain and enables the creation of a 5D virtual model of the property (including timeframe and logistics) to analyse potential risks and discrepancies. BIM also supports other aspects of the investment process, including cost and construction management as well as facility operations. It may also be used as a project management tool to plan, monitor and control development execution.

The company's policy comprises investments in a broad and highly diversified project portfolio rather than large, single developments, which would increase operating risk. The risk profile is further minimised by the broad use of forward sale contracts with upfront payments for developed real estate, which provides Consus with both stable cash flows for the project financing as well as an end-buyer. A block sale of more than 100 standardised, fully let rental apartments to institutional investors is the preferred divestment option. The customer list of already concluded transactions includes, among others, Allianz, AXA Investment Managers and BMO Real Estate Partners. Pre-sale agreements – where 30% of the final price is received at the end of planning phase, another 60% before the completion of construction works and the remaining 10% once the project is completed – make up around 80% of the company's revenues. The downside of this solution is the fact that the expected average forward selling price is lower than in the case of condo sale projects (with a targeted rental income multiple of 23x compared to 30x, respectively).

Because of forward sale agreements negotiated in the past, Consus achieved rental income multiples on sold projects at 18-19x in FY16 and 18-20x in FY17, which is somewhat below the current targeted range of 20-25x. However, it reached an average sale price per sqm of €3,130 and €3,335, respectively. Compared with the targeted average all-in-cost (land costs excluded) in the range of €2,000–2,500 per sqm, it implies a profit margin of c 40%. According to management, favourable market conditions should enable Consus to reach multiples in the range of 20-26x, which would further improve the bottom line and provide security against potential cost increases. With a growing development portfolio, the company may also benefit from economies of scale.

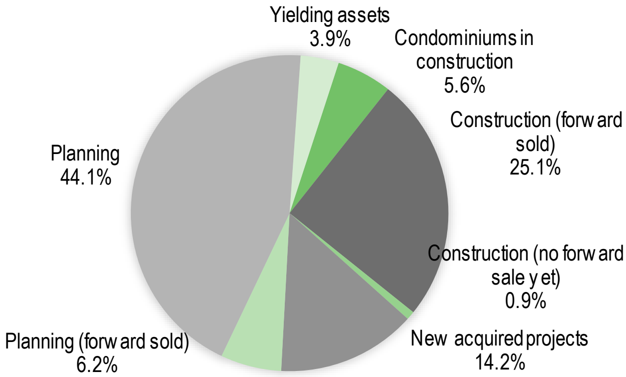
Exiting the commercial buy-and-hold business

Until recently, the company was also active in the commercial real estate segment, focusing on generating stable rental cash flows and creating value by active asset management. It has therefore introduced a Manage-to-Core strategy oriented at property optimisation through controlled investments and alternative investment strategies. However, Consus decided to exit this business gradually, as exhibited by the sale of eight commercial assets from its portfolio in May 2018 and the profitable disposal of GxP announced on 3 August 2018. The post-sale rental assets of the company include only three properties owned and self-managed by CG Gruppe. Consus has no intention of broadening the portfolio and would rather sell this residual portfolio or initiate development measures, which could involve a conversion into a residential property (eg in the case of Steglitzer Kreisel). The reason behind this strategic shift is the current demand/supply situation in the German commercial real estate market. Consus was looking for special opportunities to turn distressed real estate properties into high-yielding investments. The company targeted non-performing loans or almost vacant properties, located either on the outskirts of the largest German cities or in less prominent country regions. Due to a progressive shortage of office space to let, these bargain purchases are now hard to find and acquire on favourable terms. Consus positioned itself in a special niche, as it targeted investments of €10-50m per asset.

Portfolio description

As at 31 March 2018, the company held a portfolio of 49 projects with total area of 1.3m sqm and €5.3bn in GDV including acquisitions completed in 2018 amounting to €752m. It consists of both residential and mixed-use projects in progress, as well as a certain proportion of yielding assets. As at 31 March 2018, the portfolio consists of projects in the planning phase (50.3% of GDV), under construction (31.6%) and newly acquired projects (14.2%, see Exhibit 2)

Exhibit 2: Portfolio structure as percentage of total GDV at 31 March 2018



Source: Consus, Capital increase presentation

Even though the main focus of the development segment is on residential buildings, the company's business often involves multi-use, district-like projects to meet the expectations of both customers and local authorities. Consus specialises in large blocks of flats, often grouped in conglomerates, which require not only housing space but also key infrastructure including office and retail space. This is a new trend as in FY16 the share of developed non-residential area was negligible. In FY17 this number increased to 10.4% and in the current pipeline the share of commercial property increases with each development stage. In the investments already under construction, commercial real estate constitutes 28.1% of developed space, while within already planned construction and projects in the planning stage its share rises to c 39%. Commercial area is an integral part of development projects and is expected to be included in sale agreements rather than being retained by Consus for rental income.

Exhibit 3: Portfolio structure as percentage of total GDV as at 31 March 2018

Project stage	Area in sqm	% share
Under construction	**333,468**	
Thereof Residential	239,626	71.90%
Thereof Commercial	93,842	28.10%
Planned construction	**214,480**	
Thereof Residential	131,585	61.40%
Thereof Commercial	82,895	38.60%
In planning stage	**618,678**	
Thereof Residential	378,324	61.20%
Thereof Commercial	240,353	38.80%
Build to hold/completed	**177,707**	
Total	**1,344,333**	

Source: Consus

As of 31 March 2018, the company had already pre-sold or agreed to forward sale under letter of intent in the case of development projects with a GDV of €1.4bn, representing 27% of the total portfolio. The realisation of a development project, following the acquisition phase, usually takes 24 to 36 months and is then followed by a letting period before delivery to the institutional purchaser, which lasts from 12 to 24 months. The long realisation periods help Consus to maintain a well-diversified project pipeline in terms of delivery time. Out of top 10 largest, ongoing projects there are no more than three projects due in any given year.

Exhibit 4: Delivery date of top 10 development projects

Project	Top nine city	GDV in (€m)	Delivery date
Project 1	Leipzig	793	Until 2025
Project 2	Cologne	383	2018-20
Project 3	Hamburg	354	2022
Project 4	Cologne	347	2024
Project 5	Frankfurt	283	2023
Project 6	Hamburg	232	2023
Project 7	Frankfurt	218	2020
Project 8	Frankfurt	217	2021
Project 9	Berlin	201	2021-23
Project 10	Düsseldorf	162	2021

Source: Consus, Capital increase presentation

On top of the 49 projects already in the company's portfolio, Consus has identified 21 additional targets, with c 900,000 sqm of saleable area and an estimated GDV of €4.8bn. The targeted land is distributed across Germany's top nine cities as follows: Hamburg 27%, Stuttgart 27%, Berlin 22%, Munich 17% and Frankfurt 6%, with the remainder in Leipzig. Successful acquisition of all the identified targets, if the company decides to proceed and secures the required funding, would put the total GDV above the €10bn mark and the total area in excess of 2.2m sqm.

Recent newsflow and upcoming catalysts

H118 has seen multiple changes to the company's management board. On 9 January 2018, new executive was appointed as Andreas Steyer was nominated to become chief operating officer (COO). In February 2018, the company's chief financial officer (CFO) and member of the management board, Dr Jürgen Büser, passed away after a short but serious illness. The vacant role was filled by Benjamin Lee, who was appointed on 3 April 2018. On the same day, responsibility for the key IR and PR functions was transferred to the COO, Andreas Steyer. Furthermore, on 31 May 2018 Consus announced that the chief executive officer (CEO), Norbert Kickum, would return to Aggregate Holdings (Consus's main shareholder). He had been leading the company through the transformation process from a pure commercial asset company into a residential developer (he was replaced by Andreas Steyer).

In January 2018, Consus has announced a forward sale transaction with Bayerische Versorgungskammer (BVK) covering projects with an overall value of around €670m. As per the agreement, Consus will develop (through its subsidiary CG Gruppe) more than 1,740 apartments in Leipzig, Dresden, Frankfurt/Offenbach, Düsseldorf and Cologne over the next three to four years. The company received the first cash inflows related to this transaction amounting to €201m until May 2018. In the same month, it secured five new individual projects for a total expected sales volume of around €750m. They have been added to the CG Gruppe portfolio, increasing it to c €5.3bn of GDV.

On 15 May 2018 the company announced the divestment of eight commercial assets from its own portfolio, which was completed on 15 June 2018. This covered real estate properties with a GDV of €148m as of 31 March 2018 and an annual rental income of €10m. The trade translated into net cash proceeds to Consus amounting to €68.2m. In line with Consus's cash recycling strategy, the proceeds will be reinvested in the expansion of the development business.

As the company has no intention of developing the commercial buy-to-hold business segment further, it announced the sale of GxP to Summit RE eight GmbH on 3 August 2018. The terms of the transaction have not been disclosed, but the company expects to generate a significant profit, resulting in a net debt reduction of c €140m.

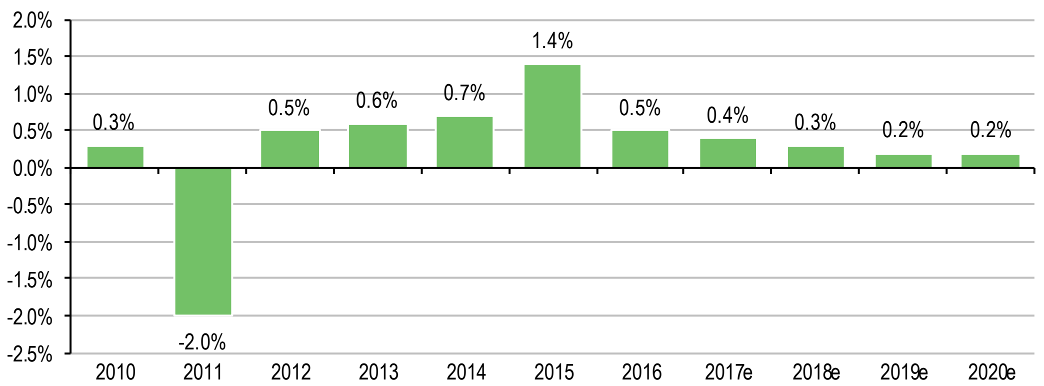
Simultaneously with the divestments in the commercial lease segment, Consus is strengthening its development business. On 2 August 2018 it was announced that Consus's stake in CG Gruppe would be increased to 75% on a fully diluted basis. The company will subscribe for a €50m mandatory convertible bond in CG Gruppe and receive the shares direct from Christoph Gröner (the main shareholder). He will be compensated with 8,333,334 new Consus shares, issued at a price of €12 per share and subject to the three-year lock-up period. He will also receive €67m in cash paid in stages over the next three years. This implies a total potential acquisition cost (both cash and non-cash) of c €217m. The deal will strengthen the equity base of Consus and its growth prospects with c €150m while limiting the cash paid out to c €67m. Following the transaction, a new extended Executive Committee of Consus will be formed by adding Christoph Gröner (CEO and founder of CG Gruppe) and Jürgen Kutz (Deputy CEO and COO/CIO of CG Gruppe).

Market overview

The German real estate market is currently shaped by a number of demographic factors:

- Increasing working population (1.7% growth y-o-y in 2018, according to CBRE) as a result of development in the services sector, most notably office worker-related business service providers.
- Strong immigration trends, such as the recent refugee influx.
- Ongoing urbanisation (eg expected population growth in Berlin and Hamburg in the period 2015-30 to reach 7.5% and 6.8% respectively, according to stadtentwicklung.berlin.de and statistic-nord.de).
- The process of "singularisation" (ie living alone) in conjunction with growing number of senior citizen households due to longer average life expectancy translating into an increasing number of households (expected growth in one- to two-person households at 7.5% in 2015-25, according to Destatis).
- New forms of living, such as student halls of residence, micro-apartments and assisted living becoming more popular.

Exhibit 5: Expected growth in number of households in Germany



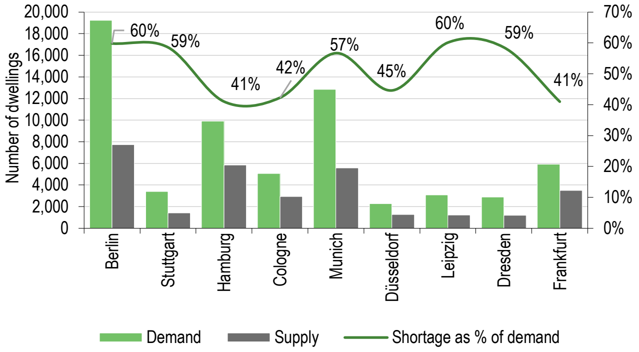
Source: EIU, Destatis

This is further assisted by strong macroeconomic factors, including a low unemployment rate (currently at c 3-4%), solid disposable income growth (+3.7% in 2017 according to Destatis) and record-low interest rates translating into high mortgage loan availability. Simultaneously, the house building supply side has so far been slow to respond to upward demand trends, which were largely a function of total construction costs in €/sqm being ahead of apartment prices for many years in Germany. Although residential building permits grew steadily in the period 2008-16 from c 150,000 to c 320,000, the Cologne Institute for Economic Research estimates that 385,000 homes would have to be build every year on average through 2020 to meet the demand for new properties. This compares with c 88,000 homes being built annually in top locations currently.

Supply growth is currently limited by persistent bottlenecks due to a shortage of workforce and general contractor capacity in the construction sector and overall longer processing periods for projects in the planning phase. This is illustrated by the 5.3% y-o-y decline in construction permits for new residential dwellings in 2017. The demand/supply imbalance puts upward pressure on overall investment costs, including a visible increase in land prices.

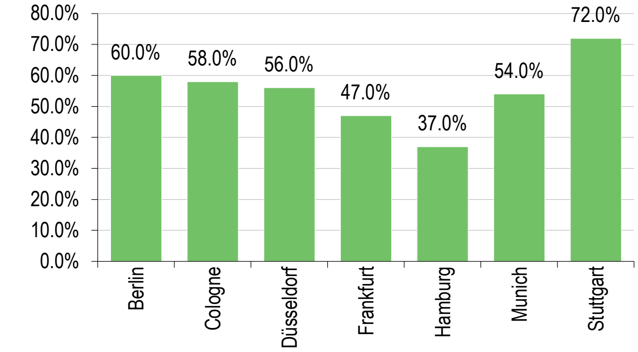
The issue of residential property shortage is clearly demonstrated by vacancy rates in the big seven locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart), which currently stand at 2% (according to CBRE, see Exhibit 6), as well as increasing condominium purchase prices (see Exhibit 7).

Exhibit 6: Apartment shortage in big nine cities in 2016



Source: www.iwkoeln.de. Note: Supply is average for 2011-15.

Exhibit 7: Condominium purchase price increases, 2017 vs 2012



Source: CBRE Research, empirica-systeme 2018. Note: Based on median in €/sqm.

Simultaneously, the German real estate market experiences continued strong interest from both domestic and foreign institutional investors, with forward funding/purchases likely to accelerate in 2018 (in particular the affordable housing segment), according to CBRE.

Demand in the German office market remains strong, with H118 take-up standing at 1.8m sqm, which is 18% ahead of the 10-year average and only 4% below last year's strong number, according to Colliers. At the same time, supply increased only moderately and, as a result, Colliers forecasts take-up at 3.5m sqm in 2018, below the 4.2m sqm in 2017 (although it does not rule out 3.8m sqm given the strong demand). The vacancy rate for big seven cities reached a new record low level of 3.7% at end-June 2018. As a consequence of the above, average office rents increased across all big seven cities, with the strongest growth recorded in Berlin, Munich and Frankfurt (at 22%, 10% and 7% y-o-y in H118, respectively). The low vacancy rates in central business district (CBD) locations in selected cities has triggered the relocation of activities from CBDs to the city fringe submarkets (eg Munich, Hamburg, Düsseldorf).

Management, organisation and corporate governance

Like other Germany-listed companies, Consus has a two-tier board structure, where the management board sits beneath the (non-executive) supervisory board.

Management board

Andreas Steyer (CEO) joined the company on 1 January 2018 as COO and was subsequently appointed as CEO on 31 May 2018. He has more than 25 years of management experience in the real estate sector. He served as CEO of DEMIRE Deutsche Mittelstand Real Estate as well as MD of Deka Immobilien Investment. His prior experience includes Österreichische Volksbank (ÖVAG), Ernst & Young Real Estate and Arthur Andersen Real Estate, where he managed the real estate business.

Benjamin Lee (CFO) joined the company on 3 April 2018 from Aggregate Holdings (Consus's majority shareholder) and was appointed CFO. He has 25 years of experience in the global financial industry, including 14 years at UBS Investment Banking in London and five years as board member and CFO of London Mining.

Supervisory board

Axel Harloff (**chairman of the supervisory board**) has held the position since 2017. In 2016, he became the main shareholder and MD of ERWE Retail Immobilien. He also served as the chairman of ACCENTRO Real Estate's supervisory board since 2014.

Professor Hermann Wagner joined the board in 2018. He is a professor at the Frankfurt School of Finance and Management and a supervisory board member at Aareal Bank and PEH Wertpapier, as well as deputy chairman of SQUADRA Immobilien.

Dr Friedrich Oelrich has been a member of the supervisory board since September 2017. He is also the chairman of AVANA Invest's supervisory board, as well as spokesman of the management board at Brainfama Consult.

Organisation

After the recent disposal of GxP German Properties, Consus's capital group includes only one majority owned subsidiary. CG Gruppe (75% shares owned by Consus) is a market leader in Germany in the development of residential apartment houses for institutional investors.

Exhibit 8: Consus's organisational structure

Source: Edison Investment Group. Note: *Already reflects the recent agreement to increase the stake to 75%. Consus holds convertible notes that will be converted to CG shares reflecting a c 4.09% stake on a fully diluted basis.

Shareholders and free float

The company is currently undergoing significant changes in the shareholder structure as a result of consecutive capital issues having been executed within a short time period. On 24 July 2018, Consus announced the completion of a capital increase through a new share issue to existing shareholders and then to institutional investors in a private placement. A total of c 18.2m new shares (out of 39.9m offered) were sold at the issue price of €7.2 per share, raising c €131m. Consus intends to use the net proceeds to fund additional growth in its development business pipeline. The Aggregate Holding, who owned c 68.6% of total shares prior to the placement, has partially executed its subscription rights with the intention of spending at least €75m, which equals c 10.4m new shares. An additional €2m worth of shares has been acquired by the company's CEO, Andreas Steyer. On 3 August 2018 another share issue was announced, but this one is addressed to Christoph Gröner (CEO of CG Gruppe) only, as a partial settlement of the agreement that increases Consus's share in CG to 75%. The issue price has been set at €12 per share.

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Sensitivities

Consus is one of only a few listed residential real estate developers in Germany and is well positioned to benefit from favourable fundamentals in its core markets. We have identified several upside sensitivities for Consus shares:

- **M&A activity:** the recent equity capital raising of €131m may be used to fund the acquisition of smaller competitors, in particular for the purpose of land acquisition, giving Consus immediate access to land and developments in progress in addition to the opportunity to exploit synergies.
- **Market fundamentals:** a continued strong demand for residential real estate in Consus's core markets would lead to further upward pressure on asset values and rents, and provide Consus with the opportunity to negotiate more favourable prices and terms on its future sales.
- **Political policies:** Consus may benefit from political policy changes or plans to regenerate urban areas as it has a solid reputation for developing modern affordable accommodation and good relationships with local authorities. These changes may be driven by the fact that the considerable shortage of residential housing in Germany becomes an important part of the political agenda.

There are also a number of factors that present downside risk to the business and consensus forecasts:

- **Macro issues:** a domestic or global economic downturn would negatively affect demand for German residential real estate and Consus' development prospects. Significant drop in demand on the market may result in going concern issues, as the company has used a lot of debt financing in the land-bank building process and now needs to cover interest payments north of €100m annually. Management expects this risk to decrease in line with the reduction in indebtedness level.
- **Interest rates:** a rise in interest rates would increase the cost of debt financing for future land and/or competitor acquisitions, as well as project development.
- **Supply bottlenecks:** the speed at which Consus can execute on its current and future developments is dependent on a number of factors, including its ability to source land, obtain planning consents and regulatory approvals, and co-ordinate resources at each stage of the process. However, even though Consus is heavily dependent on external contractors in heavy construction works, it receives priority treatment from them due to its scale of operations, which limits the risk of project delays due to insufficient contractor capacity.
- **Competition:** although barriers to entry are high, the current favourable market conditions may attract newcomers to develop residential assets in Consus's core markets, thus creating greater competition for development sites.

Financials

Consus's capital group was formed in 2017 following the acquisition of CG Group (the residential developer) and GxP Group (the commercial real estate business). The company started to consolidate GxP using the equity method from 11 November 2017 onwards, ie for less than two months in FY17. CG Group's results are consolidated from 1 January 2018 and are therefore not reflected in Consus's FY17 figures. Consequently, the Q118 financial statements are the first to present fully consolidated numbers, but without comparable data for prior periods.

Exhibit 9: Consus group Q118 and FY17 numbers		
(€000s)	Q118	FY17
Total revenue	**88,339**	**9,710**
EBITDA	28,557	6,417
EBIT pre PPA	28,044	6,400
EBT	7,963	(2,437)
Net income	4,894	(7,946)
Non-current assets	1,350,599	1,250,784
Current assets	1,218,459	1,375,258
Total assets	2,569,058	2,626,042
Equity	790,478	816,009
Non-current liabilities	1,145,870	1,125,726
Current liabilities	632,710	684,306
Total equity and total liabilities	2,569,058	2,626,042
Net cash flow from operating activities	86,121	(3,873)
Net cash flow from investing activities	(9,179)	(226,929)
Net cash flow from financing activities	(99,580)	284,509

Source: Consus accounts

Pro forma income statement

The pro forma statements have been prepared with the assumption that both subsidiaries have been acquired as at 1 January 2017 and that the disposal of eight commercial properties finalised in June 2018 was effective as of the same day. To fully reflect these items, the company has introduced the required adjustments, including reducing CG's margin on development projects and accounting for additional interest expenses related to the issue of convertible bonds.

Exhibit 10: Pro forma FY17 consolidated Income statement

€000s	Consus	CG Group	GxP	Asset disposal	Total	Pro forma adjustments	Pro forma statement
Income from letting activities	9,710	21,609	7,647	(7,533)	31,433		31,433
Income from property development		183,588			183,588		183,588
Total revenue	**9,710**	**205,197**	**7,647**	**(7,533)**	**215,021**		**215,021**
Change in project related inventory		173,692			173,692		173,692
Expenses from letting activities	(4,769)			2,589	(2,180)		(2,180)
Cost of materials		(228,930)	(4,916)		(233,846)	(18,541)	(252,387)
Net income from the re-measurement of investment properties	17,060	4,918	17,486	(15,339)	24,124		24,124
Net result from the disposal of investment properties			3,100		3,100		3,100
Other operating income	240	7,153	267		7,660	710	8,370
Personnel expenses	(1,033)	(20,435)	(1,091)		(22,559)		(22,559)
Other operating expenses	(14,790)	(21,449)	(3,378)	(3,106)	(36,511)	121	(36,390)
EBITDA	**6,417**	**120,146**	**19,115**	**(17,177)**	**128,501**	**(17,709)**	**110,792**
D&A	(17)	(1,187)	(17)		(1,220)	(35)	(1,255)
EBIT	**6,400**	**118,960**	**19,098**	**(17,177)**	**127,281**	**(17,744)**	**109,537**
Financial income	691	266	110		1,067		1,067
Financial expenses	(8,329)	(95,388)	(1,785)	2,986	(102,516)	(7,162)	(109,678)
EBT	**(2,437)**	**23,838**	**17,424**	**(14,191)**	**24,634**	**(23,708)**	**926**
Income tax expenses	(5,509)	(12,022)	(2,888)	5,188	(15,231)	7,368	(7,862)
Net income	**(7,946)**	**11,817**	**14,536**	**(9,003)**	**9,404**	**(16,340)**	**(6,936)**

Source: Consus, Share issue prospectus

As per these pro forma figures, Consus achieved total revenue of €215.0m in FY17, 14.6% of which resulted from letting activities and 85.4% from property development. The share of the former would be higher if not for the asset disposal impact reducing this type of revenues by 19%. As the company has already announced the sale of GxP and expressed no interest in developing this business segment, the share of this income source is expected to decrease in the future. However, this could be replaced by the additional sales in the development segment, which will remain the main focus of the company's activity, fuelled by the additional cash inflows from asset disposals.

On a pro forma basis, EBITDA for the period amounted to €110.8m, which represents a margin of 51.5%. It was mainly driven by the profitability of CG Gruppe, which further supports the decision to concentrate on this segment. The company recorded €109.7m of financial expenses, driven mainly by CG Gruppe's borrowing activity. As CG continued to acquire new investment opportunities, it was predominantly reliant on external financing driving higher interest costs. CG Gruppe (which represents Consus's residential development business) reported revenue of €205.2m in FY17. The sales from property development amounted to €161.5m, while construction and other services accounted for €22.1m and the remaining €21.6m was earned in the letting activities of investment properties. CG Gruppe completed four development projects in FY17, compared to only two in FY16 and therefore recorded an improvement in EBITDA and EBIT amounting to €120.1m and €119.0m respectively. As financial expenses more than doubled in FY17, earnings after tax were negative.

Balance sheet

Exhibit 11: Balance sheet

€000s	31/03/2018	31/12/2017
Non-current assets	**1,350,599**	**1,250,784**
including:		
Inventory property	534,141	527,350
Current assets	**1,218,459**	**1,375,258**
including:		
Work-in-progress including acquired land and buildings	1,040,332	1,211,827
Cash and cash equivalents	48,701	71,340
Total Assets	**2,569,058**	**2,626,042**
Equity	**790,478**	**816,009**
including:		
Subscribed capital	79,850	79,850
Capital reserves	574,714	574,714
Other reserves	-23,616	-8,456
Non-controlling interests	159,530	169,901
Non-current liabilities	**1,145,870**	**1,125,726**
including:		
Financing liabilities	1,000,054	1,013,617
Current liabilities	**632,710**	**684,306**
including:		
Financing liabilities	519,710	575,929
Total Equity and Total Liabilities	**2,569,058**	**2,626,042**

Source: Consus accounts

Total group debt as of 31 March 2018 amounted to €1,520m with average interest of 6.3% and included Consus bonds of €150m due in 2024, convertible bonds of €200m due in 2022, commercial debt and development loans. With the cash and cash equivalents amounting to €48.7m, excluding the assets divested in June 2018 and considering the sale of Consus's stake in GxP, the company's pro forma net debt equalled c €1,180m. The ratio of net debt to EBIT pre-PPA (purchase price allocation), based on medium-term EBIT pre-PPA target (c €300m) amounted to 3.9x (10.8x based on pro forma data) and was higher than the targeted value of 3.0x. This is associated with the significant expansion in business scope currently underway. Based on the market consensus (although only one provider, Hauck & Aufhäuser), the company is expected to record EBITDA CAGR of 105% in the upcoming periods (2018-2020e), which should result in an improved leverage and gearing situation.

Valuation

The limited number of domestic comparators for Consus has guided us towards including international peers in our analysis. This is not a strict comparison and should only be taken as a guide. There are differences among the companies displayed below, but the essential nature of business, in that land is bought, developed and then resold with a profit, remains the same. It is worth noting, though, that although Consus is sensitive to the global macroeconomic climate similarly to the peers below, its forward sale agreements with staggered payments provide significant revenue and cash flow visibility over the medium term.

Despite the recent rally in Consus shares, driven by M&A activity, the consensus data suggest that Consus's shares trade at a discount to peers, based on both P/E and EV/EBITDA ratios for FY19e. The widening discount to peers can be explained by the current lifecycle stage of projects undertaken. The company is closing the land bank building period and will now move to the revenue-generating construction phase. The expected increase in the bottom line explains the declining multiples in FY19e vs FY18e. As the company does not expect to declare any dividends before FY20, we have not included a dividend yield comparison in our analysis.

Exhibit 12: Peer group comparison

	Market cap	P/E (x)		EV/EBITDA (x)	
	(m)	2018e	2019e	2018e	2019e
Instone	€785.6	39.0	12.2	23.3	9.9
Bonava	SEK12,744.2	10.4	11.5	10.0	10.9
Helma	€149.0	10.0	8.7	11.2	9.8
Taylor Wimpey	£5,568.70	7.9	7.7	5.7	5.5
Barratt Development	£5,457.92	8.1	7.9	5.5	5.3
Mucklow	£343.06	21.2	20.6	21.4	20.9
Norwegian Property ASA	NOK5,967.1	18.9	20.3	20.9	22.0
ADO Properties S.A	€2,326.3	34.8	30.9	36.7	32.0
Castellum	SEK44,285.9	16.5	15.9	22.3	21.1
AVERAGE:		**18.5**	**15.1**	**17.4**	**15.3**
CONSUS AG	€845.6	23.9	11.2	11.4	7.6
Premium/(Discount) to peer group		29%	(26%)	(34%)	(50%)

Source: Bloomberg, priced at 20 August 2018. Note: Consus's market cap is based on a share count of 98.1m and does not include the shares to be issued in settlement of CG Gruppe acquisition. Consensus for Consus is based on the estimates of a single analyst.

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