

Noratis (NUVA GY) | Real Estate

December 15, 2023

Backed by the major shareholder - model update

Noratis executed two capital hikes: 1st, a rights issue, raising EUR 8 m gross. 2nd, issuance of new shares equivalent to ~7% of shares outstanding after the afore-mentioned capital increase, raising EUR 2 m. Major shareholder Merz Real Estate paid in the vast amount of new capital in the 1st measure and subscribed the 2nd one exclusively, now holding a stake of >60%. The capital injection shall be used to refinance the repayment of a promissory note and to boost liquidity. In our view, the capital injection was consequent, maybe even needed, given Noratis's high indebtedness and muted disposals in '23e. Nonetheless, we expect an LTV of ~75% at YE '23e. We deem the commitment of Merz to be positive for the debt situation, although one might argue about the dilution and limited influence of minority shareholders. On strategy, Noratis now aims to focus on letting rather than on re-selling property after modernization. Here, we wait for details on target portfolio size, debt structure and financial ambitions. We keep our HOLD-recommendation, new price target EUR 7.2 (7.4).

The CEO informed to sell part of his Noratis-stake (old: 6%) to Merz.

Changes in estimates: Due to pending details, our model is still based on the old strategy. We have altered the number of shares, net debt, interest expenses and we have cut disposal volume. Our EPS forecast alters by -6% ('23e; shown different in table "changes in estimates" for technical reasons), -26% ('24e) & -30% ('25e). In the DCF-model, dilution is virtually offset by recently declined 10y German Bund yield.

Valuation: Currently, Noratis-shares trade at P/BV '23e of approx. 0.6 (before taking into account hidden reserves on inventory properties).

Fundamentals (in EUR m) ¹	2020	2021	2022	2023e	2024e	2025e
Sales	29	74	86	52	81	99
EBITDA	9	20	13	3	15	19
EPS adj. (EUR)	0.69	1.97	1.71	-2.12	-0.25	0.42
Gross profit	15.8	24.5	25.1	20.4	25.6	29.7
DPS (EUR)	0.50	0.55	0.00	0.00	0.00	0.10
Operating Cash Flow (EUR)	4	7	4	-3	1	4
Dividend paid (EUR)	3	2	3	0	0	0
Capital expenditures (EUR)	0	0	0	0	0	0
Ratios ¹	2020	2021	2022	2023e	2024e	2025e
EV/EBITDA	38.1	21.8	34.2	123.7	26.9	21.6
PCFR	20.7	13.6	12.9	-16.7	41.1	12.0
P/E adj.	26.0	9.9	6.8	-3.5	-29.3	17.6
Dividend yield (%)	2.8	2.8	0.0	0.0	0.0	1.4
EBIT margin (%)	28.6	26.3	14.6	5.6	17.9	18.4
Gearing (%)	345.3	414.5	446.6	425.4	416.2	402.6
PBV	1.0	1.2	0.6	0.6	0.6	0.6

¹Sources: Bloomberg, Metzler Research

Hold



unchanged

Price*

EUR 7.30

Price target

EUR 7.20 (7.40)

* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

Market Cap (EUR m) ¹	53
Enterprise Value (EUR m) ¹	419
Free Float (%) ¹	33.6

Price (in EUR)¹



Performance (in %) ¹	1m	3m	12m
Share	30.4	-7.0	-35.4
Rel. to SDAX	27.8	-9.9	-43.3

Changes in estimates (in %) ¹	2023e	2024e	2025e
Sales	-14.2	-10.9	-3.3
EBIT	-33.7	-10.7	-3.2
EPS	27.1	-25.7	-29.5

Sponsored Research



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Metzler Research P&L forecast

Noratis: Our new estimates based on the co.'s P&L structure - pressure on disposal result, mark-downs on interest rate derivatives & risen cost of debt to eat into EBT

in EUR m	2019	2020	2021	2022	2023e	2024e	2025e
Total revenue	76.0	28.7	73.6	85.6	51.9	81.1	99.1
Revenue from the sales of inventory properties	63.0	12.0	50.6	55.9	21.1	49.5	66.7
Cost of sales of inventory properties	48.6	7.0	39.2	45.7	16.9	40.8	54.7
Gross profit from sales of inventory properties	14.4	5.0	11.4	10.2	4.2	8.7	12.0
Letting revenues	12.9	16.7	23.0	29.7	30.8	31.6	32.4
Letting costs	5.8	6.7	10.4	15.3	15.2	15.4	15.6
Gross profit from letting	7.1	10.0	12.6	14.4	15.6	16.2	16.9
Other operating income	1.0	0.8	0.4	0.5	0.6	0.7	0.8
Gross profit	22.5	15.8	24.5	25.1	20.4	25.6	29.7
Personnel costs	4.1	5.0	5.3	5.9	6.3	6.7	7.1
Depreciation and amortization	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Fair-value adjustments on investment properties	0.0	0.0	3.5	-0.4	-0.8	0.0	0.2
Impairment charge on inventory properties	na	na	na	2.1	6.0	0.0	0.0
Other operating expenses	2.3	2.2	2.8	3.8	3.9	3.9	4.0
EBIT	15.8	8.2	19.4	12.5	2.9	14.5	18.2
At-equity result	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial income (incl. fair-value changes of derivatives)	0.2	0.2	0.5	8.7	-3.5	-3.5	-1.3
Financial costs (net of interest income by derivatives as from 2023e)*	4.4	4.3	6.5	9.3	13.0	13.4	12.7
<i>Financial result</i>	<i>-4.3</i>	<i>-4.1</i>	<i>-5.9</i>	<i>-0.5</i>	<i>-16.5</i>	<i>-16.9</i>	<i>-13.9</i>
<i>Financial result excl. fair-value changes of derivatives</i>			<i>-6.4</i>	<i>-8.9</i>	<i>-13.0</i>	<i>-13.4</i>	<i>-12.7</i>
EBT	11.5	4.2	13.4	12.0	-13.7	-2.4	4.3
Income taxes	3.3	1.4	3.9	3.7	-3.2	-0.7	1.2
Tax rate	28.3%	32.7%	29.0%	31.0%	23.4%	28.0%	28.0%
Profit for the period	8.3	2.8	9.5	8.3	-10.5	-1.7	3.1
Non-controlling interest	0.0	0.0	0.1	0.0	0.0	0.1	0.1
Net income attributable to shareholders	8.3	2.8	9.5	8.2	-10.5	-1.8	3.0

Sources: Noratis, Metzler Research / * For purpose of analysis, derivatives interest income captured in this line

Cash flow development

Noratis: We expect operating cash flow to be negative in 2023e (disposal result included by us) but to recover in 2024e and 2025e

in EUR m	2019	2020	2021	2022	2023e	2024e	2025e
Operating cash flow (Metzler Research definition)	7.0	3.5	6.9	4.3	-3.2	1.3	4.4
- Change in working capital	34.1	100.5	76.4	46.7	-13.6	-14.4	4.6
Operating cash flow after change in working capital	-27.2	-96.9	-69.4	-42.3	10.4	15.7	-0.2
- CAPEX	0.1	0.1	0.1	0.2	0.5	0.5	0.5
Free cash flow	-27.3	-97.0	-69.6	-42.5	9.9	15.2	-0.7
- Dividend payment for previous business year	4.7	2.9	2.4	2.7	0.0	0.0	0.0
Free cash flow after dividend	-32.0	-99.9	-72.0	-45.2	9.9	15.2	-0.7
Operating cash flow per share (MR calculation; in EUR)	1.93	0.87	1.44	0.90	-0.64	0.18	0.61

Sources: Noratis, Metzler Research

Change in working capital adjusted for reclassification of some inventory into investment properties in 2021

company note

Noratis: From our DCF-model, we derive a price target of EUR 7.2

Valuation

	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	Terminal Value
in EUR m									
Sales	51.9	81.1	99.1	109.0	117.7	124.8	131.0	135.6	138.0
Sales growth (%)	-39.3	56.2	22.1	10.0	8.0	6.0	5.0	3.5	1.75
EBIT margin (%)	5.6	17.9	18.4	19.0	19.5	19.5	19.5	19.5	17.0
EBIT	2.9	14.5	18.2	20.7	23.0	24.3	25.6	26.4	23.5
- Revaluation of properties	-6.8	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
adjusted (cash-effective) EBIT	9.7	14.5	18.1	20.7	23.0	24.3	25.6	26.4	23.5
adjusted (cash-effective) EBIT-margin	18.7	17.9	18.2	19.0	19.5	19.5	19.5	19.5	17.0
- Cash taxes	2.6	3.8	4.8	5.5	6.1	6.4	6.8	7.0	6.2
Cash tax rate (%)	26.5	26.5	26.5	26.5	26.5	26.5	26.5	26.5	26.5
Depreciation	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Cash Flow	7.6	11.2	13.8	15.7	17.4	18.4	19.3	20.0	17.9
- CAPEX	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
- Change in working capital (2023e adjusted)	4.3	-14.4	4.6	4.8	5.1	5.3	5.6	5.9	2.0
Free Cash Flow	2.8	25.1	8.7	10.4	11.8	12.5	13.1	13.5	15.2
Discounted Free Cash Flow	2.8	23.8	7.9	9.0	9.7	9.8	9.8	9.6	
Discounted Terminal Value									337
Sum DCF	82								
Terminal Value	337								
Enterprise Value	419								
									WACC (%) 4.97
									Cost of Debt after taxes (%) 3.09
									COE (%) 9.35
- Net Debt ex pensions	367								
- Minorities	1								Debt/Total Capital (%) 70.0
+ Adjustment for financial participations	0								Equity/Total Capital (%) 30.0
= Equity Value	52								
Estimated Fair Value per share (in EUR)	7.2								

Source: Metzler Research

Change in working capital of current year may be adjusted to prevent double-counting of net debt change in case of larger disposals or acquisitions of inventory properties (we refer to net debt as at YE 2023e).

WACC reduced in our DCF-model

We have lowered our WACC estimate to 4.97% (before: 5.17%) in our DCF-model. The recent decline in the 10y German Bund yield is a key reason for the WACC reduction, even though other components in our WACC assumption have to be considered as well. For example, our COE estimate continues to include to some extent a component for risks which we recognize for property development in the current market environment; in addition, given that we expect an LTV of around 75% at YE '23e, our COE assumption also considers the theoretical risk that further equity measures to reduce indebtedness in the future can, in our view, not be excluded. Our cost of debt estimate (4.2% pre-tax) continues to be based on a blend of Noratis's current in-place cost of debt (net of hedging) as well as our assumptions for cost in case of debt prolongation in the medium-term. Regarding the capital structure, as previously we have applied our assumption for a target capital structure (lower leverage than currently, but still at the high end of what we would deem to be appropriate for Noratis).

Given that we have reduced our expectations for the disposal volume and disposal result in '23e-'25e, our DCF-assumptions regarding sales and EBIT for '26e-'30e have been lowered slightly, too. Overall, despite the higher number of shares outstanding following the capital measures, the reduced WACC estimate leads to an almost unchanged fair value estimate per share in our DCF-model.

company note

Noratis: Our DCF-model reacts very sensitively to minor changes in WACC and long-term growth assumptions

Sensitivity analysis

WACC	long-term growth								
	fair value estimate in EUR per share								
	1.60%	1.65%	1.70%	1.75%	1.80%	1.85%	1.90%	1.95%	2.00%
4.72%	9.5	10.4	11.2	12.1	13.0	14.0	14.9	16.0	17.0
4.77%	8.6	9.4	10.2	11.1	11.9	12.9	13.8	14.8	15.8
4.82%	7.7	8.4	9.2	10.1	10.9	11.8	12.7	13.6	14.6
4.87%	6.8	7.5	8.3	9.1	9.9	10.7	11.6	12.5	13.5
4.92%	5.9	6.6	7.4	8.1	8.9	9.7	10.6	11.5	12.4
4.97%	5.0	5.7	6.5	7.2	8.0	8.8	9.6	10.4	11.3
5.02%	4.2	4.9	5.6	6.3	7.1	7.8	8.6	9.4	10.3
5.07%	3.4	4.1	4.8	5.5	6.2	6.9	7.7	8.5	9.3
5.12%	2.7	3.3	3.9	4.6	5.3	6.0	6.8	7.5	8.3

Source: Metzler Research

Interest rate sensitivity maybe a bit overstated

Due to the relatively high financial leverage of Noratis, any minor change in the enterprise value estimate takes an over-proportionally high influence on the change in the estimated fair value of equity. Moreover, the relatively high share of the terminal value within our enterprise value estimate makes our model also react sensitively on any changes in WACC or long-term growth. However, there may be a connection of rising interest rates triggered by inflationary pressure and the nominal long-term growth assumption. Therefore, in practical terms the sensitivity to rising cost of debt in our DCF-model is probably less pronounced than the sensitivity analysis suggests: rising WACC might be accompanied by a simultaneous increase in (nominal) long-term growth and vice versa in case of declining WACC.

Annotations: In the standardized excerpt of our P&L in table following, "gross profit" in Noratis's case includes gross result from sales of properties and gross result from letting. The other result (included in Noratis's own gross profit definition) is included in our model below the gross profit line. This explains the minor difference to gross profit according to the company definition as shown on the front page of our research report.

Our model and our research note are based on the number of shares after the two capital measures (Bloomberg as at 12/14/23 has not included the second capital measure in the number of shares, yet. We have already added the additional number of shares of the second capital hike as stated in the ad-hoc release from 12/11/23).

company note

Key Data

Company profile

CEO: Igor C. Bugarski

CFO: André Speth

Eschborn, Germany

Noratis invests into small- or mid-size residential real estate portfolios in Germany. The company aims to refurbish the acquired units and to resell them. A proprietary portfolio for longer-term letting purposes is currently being set up, too. While Noratis has no regional focus within Germany, the company usually strives for purchasing properties either in cities of minor size close to major agglomerations or in major cities. In the future, Noratis aims to focus more on the letting business rather than on reselling property after modernization (any corresponding details have not been published, yet).

Major shareholders

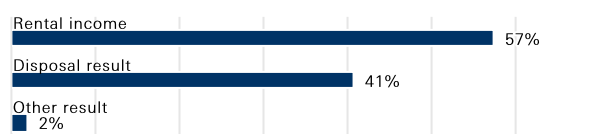
Merz Real Estate (ahead of further purchase from CEO's stake) (62.5%), Igor C. Bugarski (ahead of capital hikes and his disposals) (5.9%)

Key figures

P&L (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Sales	29	-62.2	74	156.4	86	16.3	52	-39.3	81	56.2	99	22.1
Gross profit on sales	15	-30.6	24	60.6	25	2.5	20	-19.6	25	25.9	29	15.9
Gross margin (%)	52.1	83.6	32.6	-37.4	28.7	-11.9	38.1	32.5	30.7	-19.4	29.1	-5.1
EBITDA	9	-46.7	20	129.6	13	-34.5	3	-73.9	15	342.8	19	24.7
EBITDA margin (%)	30.1	41.0	26.9	-10.5	15.2	-43.7	6.5	-57.0	18.5	183.5	18.9	2.1
EBIT	8	-48.1	19	135.9	12	-35.5	3	-76.9	15	402.1	18	25.6
EBIT margin (%)	28.6	37.4	26.3	-8.0	14.6	-44.5	5.6	-61.9	17.9	221.4	18.4	2.8
Financial result	-4	5.0	-6	-46.4	-1	91.4	-17	n.m.	-17	-2.3	-14	17.7
EBT	4	-64.0	13	223.2	12	-10.7	-14	-213.9	-2	82.3	4	277.6
Taxes	1	-58.4	4	186.6	4	-4.6	-3	-186.2	-1	78.8	1	277.6
Tax rate (%)	32.7	n.a.	29.0	n.a.	31.0	n.a.	23.4	n.a.	28.0	n.a.	28.0	n.a.
Net income	3	-66.2	10	240.9	8	-13.2	-10	-226.3	-2	83.3	3	277.6
Minority interests	0	-38.1	0	392.3	0	-31.3	0	-54.5	0	150.0	0	100.0
Net Income after minorities	3	-66.3	9	240.2	8	-13.1	-10	-227.2	-2	82.9	3	267.0
Number of shares outstanding (m)	5	33.8	5	0.0	5	0.0	7	49.4	7	0.0	7	0.0
EPS adj. (EUR)	0.69	-69.8	1.97	184.4	1.71	-13.1	-2.12	-223.8	-0.25	88.2	0.42	267.0
DPS (EUR)	0.50	-37.5	0.55	10.0	0.00	-100.0	0.00	n.a.	0.00	n.a.	0.10	n.a.
Dividend yield (%)	2.8	n.a.	2.8	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	1.4	n.a.
Cash Flow (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Operating Cash Flow	4	-49.6	7	97.4	4	-37.3	-3	-172.6	1	140.6	4	243.0
Increase in working capital	100	194.3	76	-24.0	47	-38.9	-14	-129.1	-14	-6.2	5	131.9
Capital expenditures	0	-34.9	0	59.4	0	67.3	0	171.7	0	0.0	0	0.0
Dividend paid	3	-38.3	2	-16.3	3	9.1	0	-100.0	0	n.a.	0	n.a.
Free cash flow (post dividend)	-100	-212.4	-72	28.0	-45	37.3	10	121.9	15	53.2	-1	-104.7
Balance sheet (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Assets	368	41.0	447	21.5	494	10.6	473	-4.3	457	-3.2	462	1.0
Goodwill	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Shareholders' equity	74	41.2	81	9.5	87	6.8	86	-0.7	84	-2.1	87	3.5
Net Debt incl. Provisions	256	45.2	337	31.4	388	15.1	367	-5.4	352	-4.2	352	0.2
Gearing (%)	345.3	n.a.	414.5	n.a.	446.6	n.a.	425.4	n.a.	416.2	n.a.	402.6	n.a.
Net debt/EBITDA	29.7	n.a.	17.0	n.a.	29.9	n.a.	108.2	n.a.	23.4	n.a.	18.8	n.a.

Structure

Gross result by sources 2022



Sources: Bloomberg, Metzler Research

ESG discussion

Key ESG-related topics for Noratis are the energy-efficiency level of buildings and the health of tenants, employees and contractors. Noratis published its first sustainability report in 2022 including an indicative scenario how to virtually reach net zero for its housing stock by 2045. As at year-end 2022, about 17% of its apartments were oil-heated. Several of Noratis's oil heating systems have to be interchanged short-term and these measures shall be executed in due course. Approx. 14% of the company's apartments are part of social housing programs with price links. Integrating ESG into the risk management process is under way. A compliance codex for employees exists. The supervisory board is chaired by a leading employee of the major shareholder Merz Group.

company note

Disclosures

Recommendation history

Recommendations for each financial instrument or issuer - mentioned in this document - published by Metzler in the past twelve months

Date of dissemination	Metzler recommendation *		Current price **	Price target *	Author ***
	Previous	Current			
Issuer/Financial Instrument (ISIN): Noratis (DE000A2E4MK4)					
13.10.2023	Hold	Hold	6.00 EUR	7.40 EUR	Schmitt, Jochen
18.09.2023	Hold	Hold	7.85 EUR	9.00 EUR	Schmitt, Jochen
06.06.2023	Hold	Hold	9.55 EUR	10.80 EUR	Schmitt, Jochen
06.04.2023	Buy	Hold	9.70 EUR	11.20 EUR	Schmitt, Jochen

* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

** XETRA trading price at the close of the previous day unless stated otherwise herein

*** All authors are financial analysts

Noratis

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