

## Noratis (NUVA GY) | Real Estate

August 30, 2024

### Too many unknowns at this stage

Management hosted an investors call, following up on the ad-hoc releases published in July, inter alia addressing the proposed maturity extension of two bonds due in November 2025 and in August 2027. Management told that going-concern of Noratis's business in its current state would only be safeguarded if a new anchor investor willing to inject capital was to be found. Otherwise, Noratis would most likely enter into a run-off mode, with a sell-down of the property portfolio in the years to come, aiming to safeguard liquidity and to repay debt. Major shareholder Merz (stake: ~65%) was willing to invest further EUR 10 m of equity into Noratis without any conditions, according to our understanding, and further EUR 16 m would only be provided by Merz if so far unspecified conditions were to be met, inter alia the extension of the bonds. We had repeatedly stated that we deemed the commitment of Merz as important in light of Noratis's high indebtedness; this key assumption has now got undermined. Going-concern of Noratis was another key assumption by us; this still seems to be possible but uncertain at this stage, in our view. Lastly, the potentially dilutive effect of capital measures has become more and more difficult to assess, in our opinion, also bearing in mind the current share price level of Noratis. Due to very low visibility for the time being, we SUSPEND our rating on Noratis-shares (previously rated HOLD).

**Property portfolio:** We uphold our view that Noratis's housing portfolio per se has been set-up reasonably, even though with a low density in individual cities and, retrospectively, at too high purchase prices.

**Changes in estimates:** After the announced like-for-like devaluation of 6% of the appraisal value, we have slashed our earnings forecast.

Fundamentals (in EUR m) <sup>1</sup>	2021	2022	2023	2024e	2025e	2026e
Sales	74	86	60	53	77	89
EBITDA	20	13	4	-16	9	10
EPS adj. (EUR)	1.97	1.71	-2.21	-3.78	-0.56	-0.11
Gross profit	24.5	25.1	19.7	15.2	16.3	18.2
DPS (EUR)	0.55	0.00	0.00	0.00	0.00	0.00
Operating Cash Flow (EUR)	7	4	-2	-8	-3	0
Dividend paid (EUR)	2	3	0	0	0	0
Capital expenditures (EUR)	0	0	-0	0	0	0
Ratios <sup>1</sup>	2021	2022	2023	2024e	2025e	2026e
EV/EBITDA	21.8	34.2	98.1	-23.2	39.9	30.8
PCFR	13.6	12.9	-16.0	-1.6	-3.9	43.0
P/E adj.	9.9	6.8	-2.9	-0.5	-3.1	-15.4
Dividend yield (%)	2.8	0.0	0.0	0.0	0.0	0.0
EBIT margin (%)	26.3	14.6	5.9	-30.9	10.6	11.1
Gearing (%)	414.5	446.6	429.7	609.6	616.2	575.0
PBV	1.2	0.6	0.4	0.2	0.2	0.2

<sup>1</sup>Sources: Bloomberg, Metzler Research

### Not rated

Price\* EUR 1.49

#### Price target

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

Market Cap (EUR m) <sup>1</sup>	12
Enterprise Value (EUR m) <sup>1</sup>	369
Free Float (%) <sup>1</sup>	33.6



Performance (in %) <sup>1</sup>	1m	3m	12m
Share	-44.0	-72.1	-81.8
Rel. to SDAX	-43.1	-70.0	-82.8

Changes in estimates (in %) <sup>1</sup>	2024e	2025e	2026e
Sales	-4.3	-5.3	-5.9
EBIT	-762.1	-25.3	-36.8
EPS	-159.0	-89.1	-134.6

#### Sponsored Research



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# company note

**Property impairment in 6M/24**

Noratis has recently announced that the revaluation of its properties as at June 2024 resulted in a change in appraisal values by -6% vs. YE '23 like-for-like (or by EUR -31 m of which EUR -21 m to affect earnings in the 6M/24 report, the remainder to weigh on hidden reserves). Preliminary EBT in 6M/24 amounted to EUR -26 m. This has now been considered in our earnings estimates 2024e. For the years following, our earnings estimates are also down, then in particular influenced by a lower property disposal result than we had expected before. Based on Noratis's statements we have meanwhile the impression that the market environment for disposals is currently more difficult for Noratis than assumed previously. The business model of Noratis is dependent on a certain level of disposal gains, however, otherwise the company is currently loss-making.

**Covenants to be monitored**

The devaluation of the property portfolio will weigh on group LTV which was 74% at YE '23. In the annual report 2023, Noratis mentions loan contracts and (undrawn) credit lines of in total EUR 100 m for which financial covenants apply, inter alia a group LTV covenant of <75%. Following recent news, we believe that Noratis is probably not in compliance with the LTV covenant (and possibly also with other covenants). It is a different question whether any severe consequences will arise at all in case of a covenant breach, also bearing in mind that Merz told in July to provide some support to Noratis. Moreover, almost 90% of Noratis's financial debt at YE '23 was collateralized bank debt, for which, in our view, a covenant breach does not necessarily result in any severe consequences as long as a bank believes that their loan may probably not be endangered including the collateral. Covenants related only to approx. 25% of Noratis's drawn financial debt at YE '23. In a more general context in the investor call, we understood that CFO mentioned "constructive talks" with banks. Nonetheless, in our view the covenant situation means a risk at this stage.

As a reminder on the planned bond maturity extension: Noratis published in July that the planned prolongation should give them necessary flexibility for property disposals. Otherwise, the scheduled repayment of the bond 2020/2025 would be at risk, the company added.

**We suspend our recommendation on Noratis-shares**

In total, according to our assessment the current situation for Noratis-shareholders is very unclear, also in terms of different scenarios about Noratis's future business activity. We suspend our recommendation and our price target on Noratis-shares for the time being.

**Schedule of company events**

10 September 2024 - meeting of the bondholders of the bond 2020/2025 to vote on the prolongation plan; if the minimum presence is not to be met, a second meeting to be scheduled short-term;  
30 September 2024 - release of 6M/24 report (sources: company website).

# company note

## Metzler Research forecast based on the co.'s P&L structure

Noratis: Net income to be deeply in the loss zone in '24e, mainly driven by impairments on properties, but also by a meagre disposal result and high finance cost

in EUR m	2020	2021	2022	2023	2024e	2025e	2026e
<b>Total revenue</b>	<b>28.7</b>	<b>73.6</b>	<b>85.6</b>	<b>60.2</b>	<b>53.3</b>	<b>77.1</b>	<b>89.1</b>
Revenue from the sales of inventory properties	12.0	50.6	55.9	27.3	21.5	46.1	59.4
Cost of sales of inventory properties	7.0	39.2	45.7	23.2	20.6	43.8	54.9
<b>Gross profit from sales of inventory properties</b>	<b>5.0</b>	<b>11.4</b>	<b>10.2</b>	<b>4.1</b>	<b>0.9</b>	<b>2.3</b>	<b>4.5</b>
Letting revenues	16.7	23.0	29.7	32.9	31.9	30.9	29.7
Letting costs	6.7	10.4	15.3	17.9	17.8	17.2	16.2
<b>Gross profit from letting</b>	<b>10.0</b>	<b>12.6</b>	<b>14.4</b>	<b>15.0</b>	<b>14.1</b>	<b>13.8</b>	<b>13.5</b>
Other operating income	0.8	0.4	0.5	0.6	0.2	0.3	0.3
<b>Gross profit</b>	<b>15.8</b>	<b>24.5</b>	<b>25.1</b>	<b>19.7</b>	<b>15.2</b>	<b>16.3</b>	<b>18.2</b>
Personnel costs	5.0	5.3	5.9	5.3	4.6	4.3	4.4
Depreciation and amortization	0.4	0.5	0.5	0.5	0.6	0.6	0.6
Fair-value adjustments on investment properties	0.0	3.5	-0.4	-0.2	-2.0	0.0	0.0
Impairment charge on inventory properties	na	na	2.1	6.0	19.0	0.0	0.0
Other operating expenses	2.2	2.8	3.8	4.1	5.5	3.3	3.4
<b>EBIT</b>	<b>8.2</b>	<b>19.4</b>	<b>12.5</b>	<b>3.5</b>	<b>-16.5</b>	<b>8.2</b>	<b>9.9</b>
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	0.5	8.7	-5.4	-3.5	-1.3	0.0
Financial costs (net of interest income by derivatives as from 2023)*	4.3	6.5	9.3	12.7	13.0	11.9	10.8
<b>Financial result</b>	<b>-4.1</b>	<b>-5.9</b>	<b>-0.5</b>	<b>-18.1</b>	<b>-16.5</b>	<b>-13.1</b>	<b>-10.8</b>
Financial result excl. fair-value changes of derivatives	-6.4	-8.9	-12.7	-13.0	-11.9	-10.8	
<b>EBT</b>	<b>4.2</b>	<b>13.4</b>	<b>12.0</b>	<b>-14.5</b>	<b>-33.0</b>	<b>-5.0</b>	<b>-0.9</b>
Income taxes	1.4	3.9	3.7	-3.5	-5.7	-1.0	-0.1
Tax rate	32.7%	29.0%	31.0%	24.2%	17.3%	19.1%	11.6%
<b>Profit for the period</b>	<b>2.8</b>	<b>9.5</b>	<b>8.3</b>	<b>-11.0</b>	<b>-27.3</b>	<b>-4.0</b>	<b>-0.8</b>
Non-controlling interest	0.0	0.1	0.0	-0.1	-0.1	0.0	0.0
<b>Net income attributable to shareholders</b>	<b>2.8</b>	<b>9.5</b>	<b>8.2</b>	<b>-10.9</b>	<b>-27.2</b>	<b>-4.0</b>	<b>-0.8</b>

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

## Cash flow development (Metzler Research forecast)

Noratis: We expect operating cash flow to be negative in 2024e and in 2025e (with free cash flow\* estimated to be positive, though) and to recover partly in 2026e

in EUR m	2020	2021	2022	2023	2024e	2025e	2026e
<b>Operating cash flow (Metzler Research definition)</b>	<b>3.5</b>	<b>6.9</b>	<b>4.3</b>	<b>-2.0</b>	<b>-7.9</b>	<b>-3.2</b>	<b>0.3</b>
- Change in working capital	100.5	76.4	46.7	-12.9	-19.7	-23.9	-26.8
Operating cash flow after change in working capital	-96.9	-69.4	-42.3	10.9	11.7	20.7	27.1
- CAPEX	0.1	0.1	0.2	0.0	0.2	0.2	0.2
<b>Free cash flow</b>	<b>-97.0</b>	<b>-69.6</b>	<b>-42.5</b>	<b>10.9</b>	<b>11.5</b>	<b>20.5</b>	<b>26.9</b>
- Dividend payment for previous business year	2.9	2.4	2.7	0.0	0.0	0.0	0.0
Free cash flow after dividend	-99.9	-72.0	-45.2	10.9	11.5	20.5	26.9

Sources: Noratis, Metzler Research

\* Free cash flow is before repayment of collateralized debt underlying the properties sold. / Change in working capital adjusted for reclassification of some inventory into investment properties in 2021

# 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

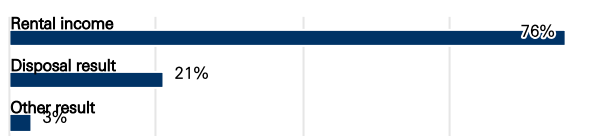
Merz Real Estate (source: Noratis website) (65.1%), Igor C. Bugarski (source: Noratis website) (1.3%)

### Key figures

P&L (in EUR m)	2021	%	2022	%	2023	%	2024e	%	2025e	%	2026e	%
<b>Sales</b>	<b>74</b>	<b>156.4</b>	<b>86</b>	<b>16.3</b>	<b>60</b>	<b>-29.7</b>	<b>53</b>	<b>-11.4</b>	<b>77</b>	<b>44.5</b>	<b>89</b>	<b>15.7</b>
<b>Gross profit on sales</b>	<b>24</b>	<b>60.6</b>	<b>25</b>	<b>2.5</b>	<b>19</b>	<b>-22.4</b>	<b>15</b>	<b>-21.6</b>	<b>16</b>	<b>7.3</b>	<b>18</b>	<b>11.5</b>
Gross margin (%)	32.6	-37.4	28.7	-11.9	31.7	10.4	28.1	-11.5	20.9	-25.7	20.1	-3.6
<b>EBITDA</b>	<b>20</b>	<b>129.6</b>	<b>13</b>	<b>-34.5</b>	<b>4</b>	<b>-68.6</b>	<b>-16</b>	<b>-490.1</b>	<b>9</b>	<b>154.8</b>	<b>10</b>	<b>19.5</b>
EBITDA margin (%)	26.9	-10.5	15.2	-43.7	6.8	-55.3	-29.9	-540.2	11.3	137.9	11.7	3.3
<b>EBIT</b>	<b>19</b>	<b>135.9</b>	<b>12</b>	<b>-35.5</b>	<b>4</b>	<b>-71.6</b>	<b>-16</b>	<b>-564.4</b>	<b>8</b>	<b>149.6</b>	<b>10</b>	<b>20.8</b>
EBIT margin (%)	26.3	-8.0	14.6	-44.5	5.9	-59.6	-30.9	-624.1	10.6	134.4	11.1	4.5
<b>Financial result</b>	<b>-6</b>	<b>-46.4</b>	<b>-1</b>	<b>91.4</b>	<b>-18</b>	<b>n.m.</b>	<b>-17</b>	<b>8.5</b>	<b>-13</b>	<b>20.4</b>	<b>-11</b>	<b>17.9</b>
<b>EBT</b>	<b>13</b>	<b>223.2</b>	<b>12</b>	<b>-10.7</b>	<b>-15</b>	<b>-221.0</b>	<b>-33</b>	<b>-127.4</b>	<b>-5</b>	<b>84.9</b>	<b>-1</b>	<b>81.5</b>
Taxes	4	186.6	4	-4.6	-4	-194.6	-6	-62.3	-1	83.3	-0	88.8
Tax rate (%)	29.0	n.a.	31.0	n.a.	24.2	n.a.	17.3	n.a.	19.1	n.a.	11.6	n.a.
Net income	10	240.9	8	-13.2	-11	-232.8	-27	-148.2	-4	85.3	-1	79.8
Minority interests	0	392.3	0	-31.3	-0	-231.8	-0	13.8	0	100.0	0	n.a.
<b>Net Income after minorities</b>	<b>9</b>	<b>240.2</b>	<b>8</b>	<b>-13.1</b>	<b>-11</b>	<b>-232.8</b>	<b>-27</b>	<b>-149.0</b>	<b>-4</b>	<b>85.2</b>	<b>-1</b>	<b>79.8</b>
Number of shares outstanding (m)	5	0.0	5	0.0	7	49.4	7	0.0	7	0.0	7	0.0
<b>EPS adj. (EUR)</b>	<b>1.97</b>	<b>184.4</b>	<b>1.71</b>	<b>-13.1</b>	<b>-2.21</b>	<b>-229.3</b>	<b>-3.78</b>	<b>-71.4</b>	<b>-0.56</b>	<b>85.2</b>	<b>-0.11</b>	<b>79.8</b>
<b>DPS (EUR)</b>	<b>0.55</b>	<b>10.0</b>	<b>0.00</b>	<b>-100.0</b>	<b>0.00</b>	<b>n.a.</b>	<b>0.00</b>	<b>n.a.</b>	<b>0.00</b>	<b>n.a.</b>	<b>0.00</b>	<b>n.a.</b>
Dividend yield (%)	2.8	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.
<b>Cash Flow (in EUR m)</b>	<b>2021</b>	<b>%</b>	<b>2022</b>	<b>%</b>	<b>2023</b>	<b>%</b>	<b>2024e</b>	<b>%</b>	<b>2025e</b>	<b>%</b>	<b>2026e</b>	<b>%</b>
<b>Operating Cash Flow</b>	<b>7</b>	<b>97.4</b>	<b>4</b>	<b>-37.3</b>	<b>-2</b>	<b>-146.5</b>	<b>-8</b>	<b>-293.2</b>	<b>-3</b>	<b>60.1</b>	<b>0</b>	<b>109.1</b>
Increase in working capital	76	-24.0	47	-38.9	-13	-127.6	-20	-52.6	-24	-21.4	-27	-12.1
Capital expenditures	0	59.4	0	67.3	-0	-110.3	0	n.m.	0	0.0	0	0.0
Dividend paid	2	-16.3	3	9.1	0	-100.0	0	n.a.	0	n.a.	0	n.a.
<b>Free cash flow (post dividend)</b>	<b>-72</b>	<b>28.0</b>	<b>-45</b>	<b>37.3</b>	<b>11</b>	<b>124.1</b>	<b>12</b>	<b>6.0</b>	<b>21</b>	<b>77.8</b>	<b>27</b>	<b>31.0</b>
<b>Balance sheet (in EUR m)</b>	<b>2021</b>	<b>%</b>	<b>2022</b>	<b>%</b>	<b>2023</b>	<b>%</b>	<b>2024e</b>	<b>%</b>	<b>2025e</b>	<b>%</b>	<b>2026e</b>	<b>%</b>
<b>Assets</b>	<b>447</b>	<b>21.5</b>	<b>494</b>	<b>10.6</b>	<b>472</b>	<b>-4.5</b>	<b>432</b>	<b>-8.4</b>	<b>407</b>	<b>-5.9</b>	<b>380</b>	<b>-6.7</b>
Goodwill	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
<b>Shareholders' equity</b>	<b>81</b>	<b>9.5</b>	<b>87</b>	<b>6.8</b>	<b>86</b>	<b>-1.4</b>	<b>58</b>	<b>-31.7</b>	<b>54</b>	<b>-6.9</b>	<b>54</b>	<b>-1.5</b>
<b>Net Debt incl. Provisions</b>	<b>337</b>	<b>31.4</b>	<b>388</b>	<b>15.1</b>	<b>368</b>	<b>-5.1</b>	<b>356</b>	<b>-3.2</b>	<b>336</b>	<b>-5.9</b>	<b>308</b>	<b>-8.1</b>
Gearing (%)	414.5	n.a.	446.6	n.a.	429.7	n.a.	609.6	n.a.	616.2	n.a.	575.0	n.a.
Net debt/EBITDA	17.0	n.a.	29.9	n.a.	90.2	n.a.	-22.4	n.a.	38.5	n.a.	29.6	n.a.

### Structure

#### Gross result by sources 2023



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			
<b>Issuer/Financial Instrument (ISIN): Noratis (DE000A2E4MK4)</b>					
12.07.2024	Hold	Hold	3.18 EUR	4.00 EUR	Schmitt, Jochen
03.06.2024	Hold	Hold	5.35 EUR	6.10 EUR	Schmitt, Jochen
15.12.2023	Hold	Hold	7.30 EUR	7.20 EUR	Schmitt, Jochen
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

\* 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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# company note

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