Transcription

CORESTATE Capital Holding S.A. - Conference Call

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PRESENTATION

00:02 Operator

Dear ladies and gentlemen, welcome to the telephone conference of CORESTATE Capital Holding S.A. At our customer's request, this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press * followed by 0 for operator assistance. May I now hand you over to Kai Klinger, who will lead you through this conference? Please go ahead.

00:35 Kai Klinger

Hello, everyone. A warm welcome on this call today for the presentation of our results for the first nine months of 2020. As usual, I'd like to direct your attention to the forward-looking statement and disclaimer warning on Page 2 of our presentation. This safe-harbor language applies to the presentation and all comments we'll be making today. I would also like to mention that everything is being recorded. After the call, a replay will be available on our website. Our CEO, Lars Schnidrig, and I will guide you through the presentation, followed by the usual Q&A session. The time frame for today's call is about 25 minutes. Now, it's my pleasure to turn the call over to Lars. Lars, the floor is yours.

01:21 Lars Schnidrig

Many thanks, Kai. And also from my side, a very warm welcome to all of you. When we speak about the highlights of the third quarter of 2020, of course, we need to speak about corona and its impact on the market we operate in. Especially, the real-estate transactions market was shaken by uncertainties and significantly less transactions during the shutdown in April and May. But we see, very carefully and very gradually, a recovery of the transaction market, so far with a clear focus on reduced risk return profiles. This means that, currently, most of the investors are looking to Core and Core+ deals, hardly into opportunistic or value-add. We can also see this in the organic growth in real-estate assets under management in Q3 by 1.2%, mainly backed by Core and Core+ transactions. This is also mirrored in our transaction activities. For example, we acquired for our largest client, the Bayerische Versorgungskammer, the so-called Project Q in Nuremberg, being the biggest single deal we've made yet and, simultaneously, one of the biggest city quarter developments in Germany so far. I'm sure we will hear more from this relatively new, but rapidly growing, asset class of city quarters. And Corestate, with its vast experience in several asset classes like residential, office, retail – which are all combined and necessary in these city quarter developments – is best positioned to benefit from this.

We have not only signed several other transactions in Germany or in France in the third quarter; we have a number of deals on the finishing line, so our investment teams are working again under full steam. More to come here in the upcoming weeks. Kai will speak about our figures in more details later, but let me highlight this. Our revenues from asset and property management – if you will our bread-and-butter business – and our mezzanine lending show remarkable resilience in the crisis. All in all, we are very well on track to deliver on our financial guidance, with a detailed road map for Q4. This takes also into account that the current second pandemic wave could also have, again, short-term impact on deal appetite and execution in some European regions. But we also perceive that most market participants are used to deal with these obstacles in a much more normal way.

As you all know, we have enlarged our Management Board with effect on November 1, and we have appointed, with my departure at the end of the year, an excellent successor. I will speak in a bit more detail about this later on.

On September 11 we have issued, in a very efficient process, around 4.2 million new shares, which were placed without any discount at a market price of EUR 17.82, thus increasing our share capital by 19.5%, and realizing gross profit of roughly EUR 75 million. We will use this money primarily to reduce our net financial debt in the short term, but we will also increase our entrepreneurial flexibility, especially helping us to divest assets from our balance sheet in a favorable environment. Please now turn to Page 4.

As mentioned before, we have made several important steps to further enhance our corporate governance. So, at the end of this process, our Management Board will be enlarged to four members, from two prior to this move. I will leave – and I cannot stress this enough – on good terms and on my own will at the end of this year. I'm sure that my team and I have done all to prepare Corestate for a strong comeback after the crisis. And I am also absolutely convinced that Mr. Klaus Schmitt, the new CEO starting on January 1, 2021, is the ideal successor. Mr. Schmitt brings not only vast experience in the real estate industry and an impressive track record of 14 years of Board Member at Patrizia, he also offers a broad network to important players in the real estate market and, more importantly, a strong background in Core and Core+, which is what our clients are currently asking for.

Another really important step for our company is the decision to give legal, human resources, compliance, risk management, and ESG a seat in the Management Board. Daniel Löhken is in the ideal position to fulfill this role. Daniel, prior being Chief Legal Office of Corestate, was not only a very successful lawyer with a strong international background, but also responsible for establishing best-in-class compliance and risk management structures, something especially institutional clients are asking for before they invest in our assets. Maybe even more important, as a servicer, our people are our most crucial success factor to distinguish ourselves in the market. To find, support, incentivize, and promote the real talent is one key endeavor, and this will now be represented in our Management Board. Daniel has started as a Board Member on November 1.

Last but not least, the Supervisory Board initiated a structured search process to find a further Board Member for finance and capital markets. Please turn now to Page 5. And with this, I would like to hand office to our Chief Market Officer, Dr. Kai Klinger.

07:34 Kai Klinger

You know this chart from our previous presentation. It shows the development of our AuMs since the end of 2019. In brief, we had another all-time high at the end of September 2020, with EUR 28.4 billion of AuMs, including a planned decrease in our rundown portfolio of non-real estate AuMs of EUR 0.3 billion. In our core business, the real estate AuMs, we grew organically this year, already with 4.1%, despite of any negative impact from COVID. This also reflected increasing acquisition-related fees, especially in the third quarter. Our real estate assets went up to EUR 25.2 billion from EUR 22.8 billion, showing an increase of more than 10%, of course driven by the initial consolidation of STAM Europe.

If you see the lower part of the slide, we had only minor shifts within the segment. The proportion of residential and micro living went slightly down; office went up a bit; and retail continues to decline, reflecting the current investor demand. Logistics, as one of the core competences of STAM, nearly doubled its share. Our deal pipeline is obviously impacted by COVID-19. Nevertheless, we have more than EUR 4 billion of potential deals on our table, with more than EUR 1 billion in advance contractual status. So, our transaction teams are again very busy, and we expect several news here in the upcoming weeks.

Please flip to Page 6. You also know this chart well. It shows the development of our real estate debt financial subsidiary, HFS. In a few words, our mezzanine business shows strong performance in the crisis. The invested fund volume, end of September, of around EUR 1.3 billion is currently allocated in 57 projects. As in the past, the vast majority is invested in the metropolitan areas in Germany, Austria and Switzerland. A stable 70% of lending goes to the top seven cities in

Germany. And even more important for the performance of the fund, roughly 70% are residential anchored projects which went through the crisis without any negative impact, according to the ongoing high demand. On the investor side, we just saw at the Fund Year's end on October 31 only minor outflows based on a flawless performance of this high-return product in the crisis. We feel very comfortable to overcompensate this usual churn in the next weeks, and can show again further organic growth until end of 2020, like in the years before. The proof is always in the pudding, and our excellent investment competence in choosing and managing the right projects and developers reveals now. This gets supported by a quasi-credit crunch on the banking side for high risk profiles in real estate. In addition, a couple of smaller but very active competitors in the mezzanine lending business were hit by the crisis. Based on less diversified portfolio and wrong type of underlying commercial projects, say, for instance, hotel or retail, they were forced to execute already debt-to-equity swaps, with very unhappy investors and immediate cancellations of existing capital commitments. This all has strengthened our market position and boosted our pipelines of tangible mezzanine opportunities on a level of around EUR 0.5 billion. So, we are absolutely convinced that the business will continue to contribute very stable and attractive earnings to our P&L in the next years.

Please turn now to Page 7. Let me speak a bit about our revenue stream in the first nine months of 2020, as compared in brackets with the previous year's figures. We earned EUR 23.3 million acquisition-related fees in the first nine months of 2020, just slightly less than between January and September 2019, and reflecting a gradual recovery of the transaction markets this June. Our bread-and-butter business, assets and property management, showed revenues of more than EUR 70 million, up from EUR 64.7 million in 2019, proving stability in the crisis and reflecting our strengthened recurring fee base from transformational journey over the past quarters and years. As said before, HFS delivered solidly again, with just a minor decrease in the coupon participation fee from EUR 39 million in 2019 to EUR 35.5 million this year. The first steps towards the new normality and cautious recovery in the transaction market can also be seen in our sales fee of EUR 3.2 million in Q3. Our income from mezz loans stood at EUR 6.8 million, reflecting a quickly revitalized market appetite, especially in new residential developments in A and B cities. The uncertainties in several pockets of the market, especially in retail and service departments, are reflected in the significant, mostly valuation-driven reduction of our earnings from alignment capital, down from nearly EUR 20 million last year to EUR 0.3 million this year. Another noticeable decline can be seen in our earnings from warehousing and real estate operations, standing at EUR 3.3 million in the first nine months of this year, and at roughly EUR 23 million in the comparable period of 2019. This is mainly down to our disciplined balance sheet approach, in order to reduce our net financial debt and the drive out market for value-add in opportunities to investments. All in all, this led to aggregated revenues and gains of nearly EUR 143 million, and thus we see us on a very good path to deliver on our guidance 2020.

Please flip to Page 8. Let's turn now to the cost structure or expenses. Especially the OpEx has been short-term-burdened by the changing market conditions. The OpEx ratio of more than 55% shows this significantly, and is driven predominantly by weaker revenue lines in warehousing and alignment capital, as well as extraordinary efforts in the underlying assets, in the backdrop of a complex operational environment since the beginning of the crisis. Expenses from real estate investment management ended up at EUR 64.7 million, alignment capital expenses at EUR 9.2 million, and warehousing expenses at EUR 5.1 million, all in all representing around 60% of our revenues. G&A expenses were also higher than planned at the beginning of 2020, standing at EUR 24.4 million. Until end of December, this will include around up to EUR 10 million negative one-time effects, mostly HR-related, in the context of our efficiency enhancement program. With this, our EBITDA was at EUR 46.1 million, reflecting an EBITDA margin of 32%, unusually low for Corestate. Nevertheless, we are on a good run rate to reach our new 2020 guidance of between EUR 55 million and EUR 80 million. D&A amounted to nearly EUR 25 million, and were affected by IFRS 16, as well as by the first-time consolidation of STAM. Our financial result was at EUR -16.2 million at the end of this year's first nine months. This results in a net profit of EUR 4.4 million and, adjusted by capitalized asset management contracts of EUR 19 million and deferred tax assets of EUR -2.5 million, in an adjusted net profit of nearly EUR 21 million – again, a good run rate to each our guidance of between EUR 55 million and EUR 80 million.

Please turn to Page 9. On this slide, you can see our key balance sheet and debt figures end of September. Our total debt, adjusted for around EUR 29 million of rental and leasing liabilities, stood at EUR 597 million at the end of the first nine months of 2020. This contains EUR 107 million bank and other debt, including EUR 3 million warehousing debts. As said before, we have used our balance sheet since the beginning of the pandemic very disciplined, and continue to do so. Cash, restricted cash, and cash equivalents amounted to nearly EUR 150 million, showing of course the effect of the capital increase, but also positive operational cash generation. Net debt at the end of September was EUR 449 million, leading to a financial leverage after IFRS 16 adjustments of 3.7x. Nevertheless, our mid-term target range of between 2.0x and 3.0x remains unchanged. To reach this goal, we once again reiterate our plan to convert more than EUR 200 million of balance sheet assets into cash in the upcoming 18 to 24 months. But let me be very clear: we do not have substantial redemptions or refinancing needs until the end of 2022, and our main financial instruments are not affected by higher leverage ratios, as the terms and conditions only limit our ability to raise new debts, something we do not intend to do when our leverage ratio is worse than 3.5 times.

Please turn to Page 10, and with this, I would like to hand back to Lars again.

18:16 Lars Schnidrig

What can you expect from us until the end of 2020? We have a very wealthy project pipeline of transactions, and expect some advanced deals out of this to be materialized until the end of the year as clients, especially pension funds, pension schemes, and insurers, feel increasing pressure to invest into sustainable and profitable real estate assets that we can offer. Our efficiency enhancement program will proceed as planned until the end of this year, so we can realize gains and fruits, including around EUR 10 million of annual savings from the next year onwards. And we will, of course, continue to reduce our balance sheet exposure, as described above, and we will see the first pickings, therefore, with positive impact on our net debt figure. Operationally, our focus is on asset and property management services for those assets that were most affected by the crisis, namely, retail and service apartments. As you can see from the figures Kai explained to you just a minute ago, we are on very good track to achieve our guidance of between EUR 185 million and EUR 210 million of aggregate revenues and gains, between EUR 55 million and EUR 80 million of EBITDA, and between EUR 25 million and EUR 50 million of adjusted net profit. So, we confirm this guidance.

Lastly, let me give you a sneak preview on 2021. We expect the real estate transaction market to pick up momentum, as we anticipate higher visibility in post-corona scenarios, and further increasing investment pressure on institutional investors like pension schemes or insures. This will lead to a remarkable operational recovery of Corestate, as we are very well positioned to benefit from a more positive operational surrounding. We expect that all our real estate equity business revenue lines will show improved earnings in 2021 compared to this year, driven by the market gaining momentum and the current uncertainty declining. Our mezzanine business will, based on a pipeline on record level reflecting the strong demand from developers and the reduced risk appetite from banks, deliver once again on a stable level to our earnings. So, although we cannot give you a quantitative outlook as of today, we can say that we expect all of our KPIs at the end of 2021 significantly improved compared to 2020. We will provide the financial outlook for 2021, as usual, on February 24 next year.

With this, I would like to hand back to the operator, and we are now happy to answer your questions.

Q&A

21:10 Operator

Thank you. We will now begin our Q&A session. If you have a question for our speakers, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced you can ask a question. If you find your question is answered before it is your turn to speak, you can dial 02 to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. One moment please, for the first question.

The first question we've received is from Thomas Neuhold, of Kepler Cheuvreux.

22:12 Thomas Neuhold (Kepler Cheuvreux)

Thanks for taking my questions. Actually, I have only two. The first one is on Q3 results. Can you elaborate in more details on asset impairment write-downs in Q3, which is in alignment capital and real estate operations? And what is the outlook for Q4? Do you think write-downs are still necessary? And the second question: I was wondering if you could give us an update on your asset disposal plans? It seems to me that so far nothing really happened here. What can we expect by the end of this year? Or will most of the disposals happen next year?

22:57 Kai Klinger

Hi, Thomas. It's Kai. Maybe I will go for both questions. The first, about potential further revaluations or valuation adjustments in Q4, we see this today as not necessary and unlikely. From today's picture, we see a quite normal Q4 based on our budgets on every revenue stream. And your second question about asset disposals, we have said with our H1 call that we feel comfortable to already convert a low- to mid-double-digit million Euro amount in 2020, or in the second half. And we feel still very comfortable to do so. So, expect, until the end of the year, a lower net debt figure compared to what we see today.

24:22 Kai Klose (Berenberg)

Hello, everyone. You mentioned for 2020 full-year, you expected transaction volume of about EUR 125 million. May you tell us what you expect in deals and acquisitions?

25:30 Kai Klinger

To start with your transaction volumes in the first nine months, we are today a touch more than EUR 1 billion, and therefore we have around EUR 200 million from the disposals or from sales fees. We expect together around EUR 1.1 billion, EUR 1.2 billion. We expect around 300, a touch more, until end of Q4. This is already based on new assets that we grew organically. So, no further disposals.

26:53 Tom Carstairs (Commerzbank)

Hi. My question is, firstly, Lars, on your departure, if I'm a shareholder in Corestate, I've been thinking you've been doing a good job at improving governance and transparency at the company, but I've been feeling the job isn't complete. I was wondering if you could give us a bit more around your departure and the reasons for it. Secondly, could you give us some thoughts on Ralph Winter and Thomas Landschreiber's new 777 Capital Partners initiative? And lastly, Kai, on what you said about the G&A, about the EUR 10 million HR-related efficiency, could you elaborate a bit more on that, please?

27:24 Lars Schnidrig

Hi, Tom. Maybe starting with the first question, and then I hand over to Kai. First of all, I hope you understand this, given that we are a listed entity, I can't say more around it than what we have published, but what I can assure you is that my successor, the Supervisory Board, we are all on very good terms about the handover. So, I'm very pleased with how this is running. And I think, as we have stated in the earnings call, in the things Kai and myself said, the handover is in full steam, proceeding with Klaus. So, he will continue, of course, the way – as you said – that has happened in the last two, two and a half years. Obviously, it's a decision of the Supervisory Board to name the new CEO, as they have done. But we couldn't find a better position candidate, because the company he has worked before has done a very similar way the last 30 years. So that definitely helps. And with this, Kai, I hand over to you.

29:13 Kai Klinger

Maybe starting with your last question about our efficiency enhancement project, as is quite usual, we want to save on the cost side next year around EUR 10 million, maybe a touch more. And, to execute this, we have to compensate HR-driven expenses. Actually, these are close to EUR 10 million that we are currently dealing with, based on a structured process which we have already started. We have already a low-single-digit million amount booked in the first half, and we will show the remainder in Q4 this year.

We don't want to speculate about any entrepreneurial initiative from our founders and former colleagues. We keep our fingers crossed that they were successful in the market. From what I have heard, they will do something similar like they have done before they founded Corestate in the real estate private equity world. To say more would be out of this format here.

Thank you so much for listening. We appreciate your interest and your questions. Of course, we will be on the road, unfortunately, only virtually in the upcoming weeks. Do not hesitate to contact us for any further queries you may have. Please be reminded that our Capital Markets Day will take place next week on November 19, also purely online. If I may ask you to register for this event on our website. Of course, on the last page of today's presentation, you can also find our financial calendar for 2021. We look forward to speaking to you soon. So, stay healthy and goodbye.