

Traumhaus (TRU GY) | Real Estate

August 31, 2022

Inflation and interest rates might undermine earnings prospects

Traumhaus has positioned fairly well, in our view, in the construction and sale of terraced houses and apartments with a high energy-efficiency level, largely located on the outskirts of agglomerations (partly in major cities). The focus on serial construction seems to give a cost advantage compared to non-serial projects. Nonetheless, we deem the current market environment for Traumhaus to be rather difficult: In our opinion, the risk of cost overrun (despite probably partially successful mitigating measures) and a shortage of some construction materials within the industry should be monitored. Moreover, risen interest rates and increased cost of living are eating into the financial budget of potential home purchasers. This might be negative for the demand for the company's projects, at least temporarily, and for the ability to pass-on cost inflation to home buyers. Following a change in coverage, we cut our recommendation on Traumhaus-shares from BUY to HOLD with a new price target of EUR 12.0 (22.0).

Pricing bracket: Some Traumhaus projects offer terraced houses starting from approx. EUR 330,000 on the outskirts of agglomerations (e.g. in Geislingen between Stuttgart and Ulm). The ultimate sales price including further equipment is probably somewhat higher.

Valuation: Based on yesterday's Xetra close, Traumhaus-shares currently trade at a P/E '23e of approx. 9.5. The P/BV '22e is about 1.3 (ROE '23e: 13.4%) while the company's land plots for construction are in our view likely to carry hidden reserves in the balance sheet. This P/BV ratio looks rather inexpensive to us but due to the aforementioned risks, we deem the valuation of Traumhaus-shares to be not interesting at this stage.

Fundamentals (in EUR m) ¹	2019	2020	2021	2022e	2023e	2024e
Sales	86	86	102	114	130	144
EBITDA	7	10	13	12	12	13
EPS adj. (EUR)	0.74	0.77	1.34	1.14	1.18	1.25
ROE (%)	16.5	13.7	19.9	14.4	13.4	12.9
DPS (EUR)	0.50	0.50	0.60	0.60	0.60	0.60
Operating Cash Flow (EUR)	4	5	7	7	7	7
Dividend paid (EUR)	0	0	1	1	1	1
Capital expenditures (EUR)	3	1	6	3	2	2
Ratios ¹	2019	2020	2021	2022e	2023e	2024e
EV/EBITDA	15.2	11.6	9.1	8.6	8.4	8.2
PCFR	16.3	11.7	11.4	8.1	7.7	7.3
P/E adj.	20.7	17.4	12.3	9.6	9.3	8.8
Dividend yield (%)	3.3	3.7	3.6	5.5	5.5	5.5
EBIT margin (%)	7.3	10.0	11.4	9.2	8.5	8.1
Gearing (%)	198.9	189.8	105.5	111.6	109.1	104.1
PBV	2.9	2.2	2.2	1.3	1.2	1.1

¹Sources: Bloomberg, Metzler Research

Hold



down from buy

Price*

EUR 11.00

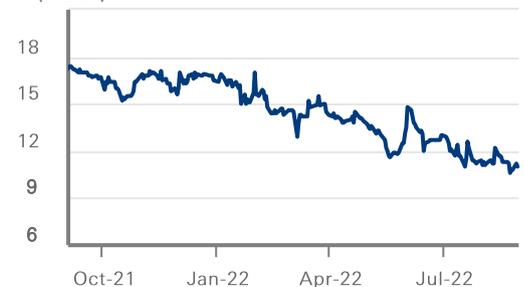
Price target

EUR 12.00 (22.00)

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

Market Cap (EUR m) ¹	54
Enterprise Value (EUR m) ¹	100
Free Float (%) ¹	25.8

Price (in EUR)¹



Performance (in %) ¹	1m	3m	12m
Share	-2.7	-12.0	-35.7
Rel. to CDAX	1.7	-0.9	-17.1

Changes in estimates (in %) ¹	2022e	2023e	2024e
Sales	0.0	0.0	0.0
EBIT	0.0	0.0	0.0
EPS	0.0	0.0	0.0

Sponsored Research



Author: Jochen Schmitt

Financial Analyst Equities

+49 69 2104-4359

JSchmitt@metzler.com

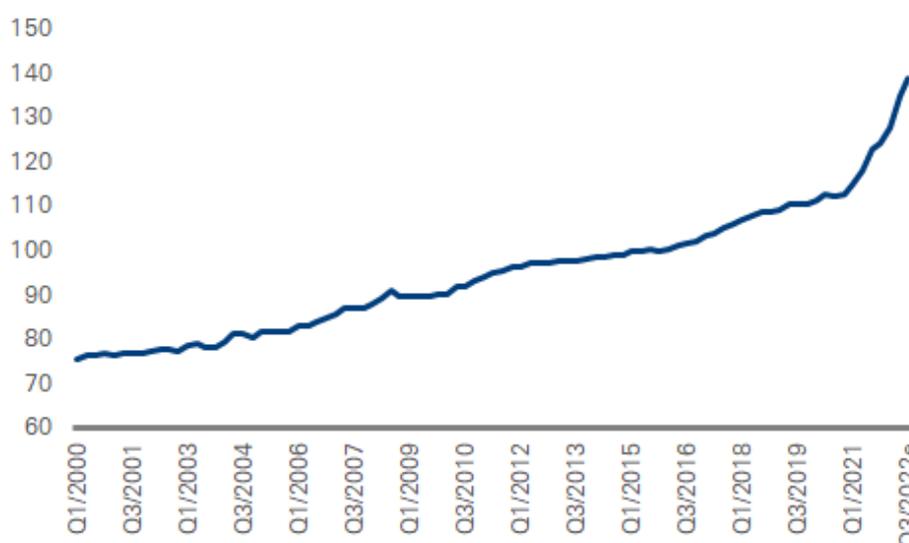
company note

We recognize risks for the company's medium-term earnings development

Cost inflation and shortage of some construction materials are our key concerns regarding the medium-term earnings development of Traumhaus. In addition, we see potential home purchasers being faced with risen interest rates and increased cost of living. The latter two topics are in our opinion likely to curb the budget of potential home buyers. This could lead to declining demand for Traumhaus's products. Furthermore, in already signed contracts we see the risk that Traumhaus might report some cost overrun even if its contracts allowed to roll-over certain cost items either to contractors (first and foremost) or to some extent to home buyers: there are probably limits to which extent these contract parties may afford to pay for cost overrun, independent from the terms and conditions of the contract.

Construction cost have risen significantly in recent quarters

Construction cost for residential buildings in Germany (indexed, 2015 = 100)



Sources: Destatis, Metzler Research estimates

CEO comments on cost inflation at AGM give in our view mixed signals

At the AGM in July 2022, CEO Otfried Sinner said that the company was currently largely in line with regard to progress on its construction sites. Cost inflation developed differently for individual components. The price for Traumhaus's roof, for example, increased by at least 25%, but was only a minor component of the total price. In our view, these comments provide mixed signals for Traumhaus-shareholders: while apparently no major delay of construction projects may give relief, the comment on cost inflation for the roof could be seen negative.

At the end of April 2022, management told in a press release that neither risen prices for construction materials (and correspondingly risen prices for the company's new construction projects) nor the increased interest rate level had affected their house sales, yet. They were to calculate with more time for the start of new construction sites in light of the uncertainty about shortage of some construction materials, they also said. Furthermore, in May 2021 the CEO told that Traumhaus was only to minor extent affected by risen prices for construction materials at that point in time. He mentioned reasons like serial construction. According to our understanding, apart from the ordering process of materials for the serial construction process, he probably also referred to the margin for the purchase and sale of land.

company note

Order intake for construction activity in Germany currently retreating in real terms

The German statistical office (Destatis) has recently told that the order intake in the main construction industry in Germany declined by 11% in June 2022 compared to June 2021 in real terms (in nominal terms: +4%). Turnover of the main construction industry also declined by 11% in June 2022 y-o-y (nominally: +6%).

The just mentioned differences between real and nominal developments seem to underline the cost inflation issue. In this context, the large German residential property developer Instone (Bloomberg code INS GY, not rated by Metzler) has recently told to expect construction material cost inflation of approx. 15% in 2022. Instone also mentioned cost pressure for some materials, e.g. construction steel, to have started to ease. For sake of comparison: Instone develops larger housing complexes compared to Traumhaus.

Medium-term, this could lead to an even more pronounced housing shortage in major agglomerations in Germany, which could drive up further (or at least stabilize) prices for modern and energy-efficient housing space. Shorter-term, though, we recognize uncertainties for Traumhaus's financials, especially for FY 2023e.

Some relief could be seen in Traumhaus's product offer

On the positive side, we recognize the possibility that Traumhaus may still attract home buyers given that the company is active in a market bracket which does not belong to the upper-end of the price-range for new construction. Hence, there could be still enough interested parties being around for a purchase. In addition, the serial construction may allow for cost advantages compared to other construction companies. Furthermore, the locations of Traumhaus's projects - often on the outskirts of major cities or often located close to major agglomerations - could be interesting for those people who are willing to move out of the inner cities to be able to buy a house. If their work can (partially) be done remote, this could also increase the attractiveness of Traumhaus's land plots.

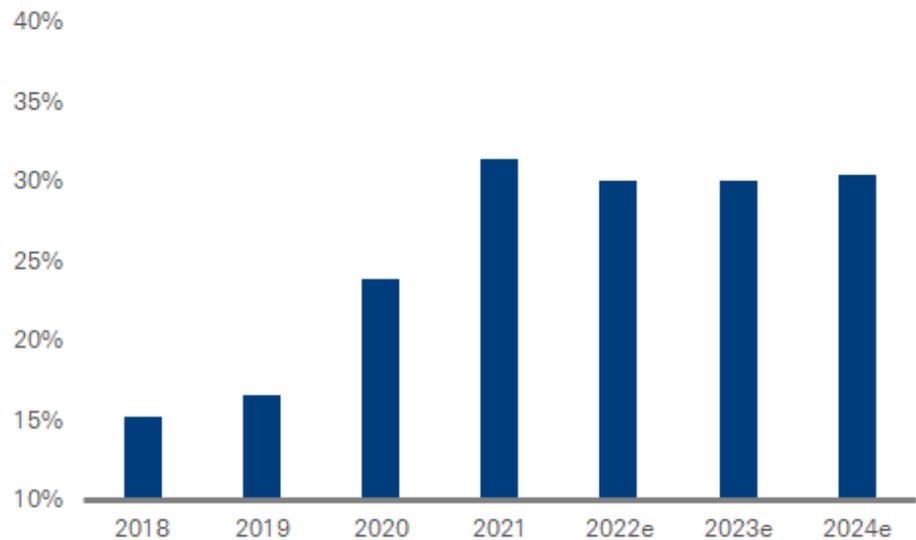
Balance sheet in spotlight

The company's equity ratio improved to 31% during FY 2021 (2020: 24%) because of retained earnings, a declining balance sheet total and a minor capital increase. The balance sheet total is in our opinion likely to rise again in 2022e, first of all due to company growth but also because the balance sheet total may be subject to some fluctuation by nature of business.

company note

Equity to balance sheet total

Traumhaus: Equity ratio has improved but we would prefer a higher ratio



Sources: Traumhaus, Metzler Research

The dividend for fiscal year 2021 amounted to EUR 0.60 per share. The two major shareholders, CEO Otfried Sinner and the chairman of the supervisory board, Markus Wenner, waived 70% of their dividend right.

No detailed targets outlined for FY 2022

In the annual report 2021, management did not provide any precise outlook for FY 2022. Management told, however, that they expected continuous demand in Traumhaus's market segment. The already secured land stock could translate into a total sales volume of EUR 500 m (accumulated over several years). On that basis, an average annual growth of total output of 15% would be possible for the next years, they added. The EBITDA margin (relative to total output) should amount to a range from 10% up to 13%.

Relative to the medium-term outlook of management, we are currently somewhat more cautious

In our model, we assume a sales growth by 12% in 2022e, 14% in 2023e and 11% in 2024e (each y-o-y; we refer to sales rather than to total output here). Furthermore, our EBITDA-margin forecast (relative to total output in this context; shown relative to sales in the P&L of this research note) is more cautious: we expect 9.4% for FY 2022e, 8.8% for 2023e and 8.4% for 2024e. Due to inflation, we anticipate higher sales prices per unit (generally speaking, not considering the precise location of the projects) to partially compensate our expectation of slightly curbed disposal volumes. Simultaneously, we deem likely that Traumhaus cannot pass-on cost inflation to customers in new projects completely, which is reflected in our margin assumptions.

ROE looks relatively good to us

Our estimates would still imply a relatively good ROE of 14.4% for 2022e and 13.4% for 2023e.

company note

Metzler forecast for key drivers for revenues and earnings

Traumhaus: Number of land plot sales and completion of newly constructed units

in # if not stated other	2018	2019	2020	2021	2022e	2023e	2024e
Land plot sales closed	224	208	317	295	270	295	315
Completion of newly constructed housing units	175	308	157	208	265	295	320
Sales (in EUR m)	54.4	86.4	85.8	102.2	114.5	130.4	144.1
Total output (in EUR m)*	64.5	73.4	101.2	114.2	123.5	139.4	154.1
EBITDA (in EUR m)	7.5	7.4	9.9	13.1	11.6	12.3	13.0
EBITDA-margin**	11.7%	10.1%	9.8%	11.4%	9.4%	8.8%	8.4%

Sources: Traumhaus, Metzler Research estimates

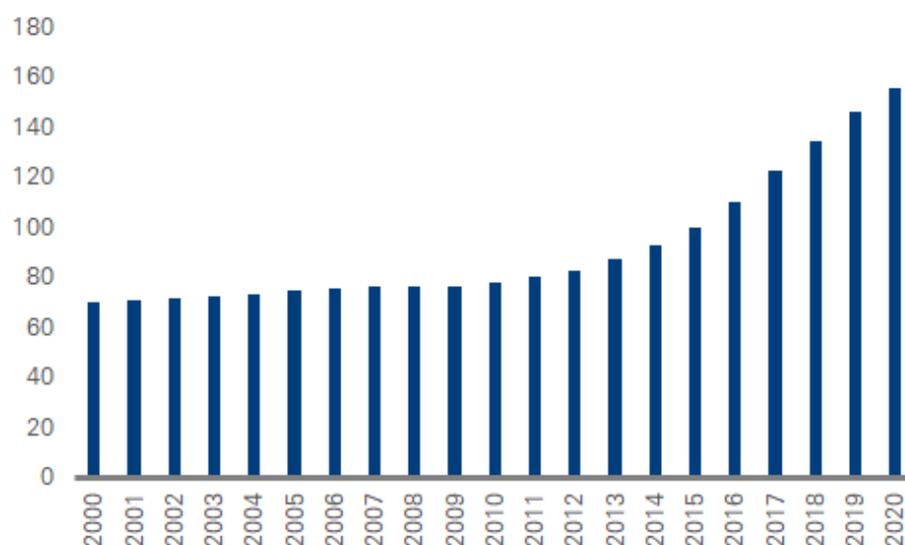
* Total output excl. other income in our model (was approx. EUR 2 m in 2020 and 2021 each) / ** in this table: relative to total output rather than to sales

Our margin assumptions include some cautiousness on gains on future land sales

According to our assessment, one reason for the favorable margin development of Traumhaus in recent years was the fact that land prices have risen. This let the company participate in a positive stock effect, i.e. from the value development of land between the purchase and the resale. In our view, this will become more difficult in the future, also because in light of risen prices for construction materials, the land price has a higher flexibility compared to construction cost or cost for certain materials.

Land prices in Germany

Land for construction in Germany: Prices rose significantly from 2000 to 2020 (indexed, 2015 = 100)



Source: Destatis

We believe that it is important to bear in mind that Traumhaus may also generate value by purchasing land in an early phase of obtaining a construction permit if this land obtains a construction approval later on (for example, a change from so-called "Bauerwartungsland" into "Bauland"). Therefore, the development of land prices in general is only one component of Traumhaus's margin development, according to our assessment.

company note

We have revisited our DCF-model

We have taken the following key assumptions in our DCF-model: For COE, we apply 11.0% at this stage. The reason for this relatively high figure relates to the project development business which first and foremost includes in our view a much higher risk compared to a letting model of a housing company, for example. Furthermore, it seems very difficult to give any projections how the future project pipeline of Traumhaus (including land) could look like. Moreover, Traumhaus-shares have a very limited free float and trading volume. In addition, the company discloses a full set of financial figures only once per year. The half-year results 2021 were published in November (key figures only). This leaves shareholders according to our assessment with a limited transparency.

Our cost of debt estimate is 5.0% before taxes. In combination with a capital structure (our working assumption) of 60% debt and 40% equity, we arrive at WACC of 6.5%. Our long-term sales growth assumption is 1.0%.

Traumhaus: From our DCF-model, we derive a price target of EUR 12.0

Valuation

	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	Terminal Value
EUR m									
Sales	114.5	130.4	144.1	155.7	166.6	174.9	181.9	187.4	189.2
Sales growth (%)	12.1	13.9	10.5	8.0	7.0	5.0	4.0	3.0	1.0
EBIT margin (%)	9.2	8.5	8.1	8.0	8.0	8.0	8.0	8.0	6.3
EBIT	10.5	11.1	11.7	12.5	13.3	14.0	14.6	15.0	11.8
- Revaluation of properties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
adjusted (cash-effective) EBIT	10.5	11.1	11.7	12.5	13.3	14.0	14.6	15.0	11.8
adjusted (cash-effective) EBIT-margin	9.2	8.5	8.1	8.0	8.0	8.0	8.0	8.0	6.3
- Cash taxes	3.2	3.3	3.5	3.7	4.0	4.2	4.4	4.5	3.5
Cash tax rate (%)	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Depreciation	1.1	1.2	1.3	1.3	1.4	1.4	1.5	1.5	1.3
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Cash Flow	8.5	9.0	9.5	10.1	10.7	11.2	11.6	12.0	9.5
- CAPEX	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.3
- Change in working capital (2022e adjusted)	4.0	7.0	6.5	5.0	4.5	4.0	3.0	2.0	1.0
Free Cash Flow	1.5	0.0	1.0	3.1	4.2	5.2	6.6	8.0	7.3
Discounted Free Cash Flow	1.4	0.0	0.9	2.5	3.2	3.7	4.5	5.0	
Discounted Terminal Value									83
Sum DCF	21								
Terminal Value	83								
Enterprise Value	105								
									WACC (%) 6.5
									Cost of Debt after taxes (%) 3.5
									COE (%) 11.0
- Net Debt ex pensions	46								
- Minorities	0								Debt/Total Capital (%) 60.0
+ Adjustment for financial participations	1								Equity/Total Capital (%) 40.0
= Equity Value	59								
Estimated Fair Value per share	12.0								

Source: Metzler Research

company note

Traumhaus: Our fair value estimate depending on WACC and long-term growth

Sensitivity analysis

WACC	long-term growth									
	fair value estimate per share in EUR	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
5.5%	13.2	14.1	15.1	16.2	17.5	18.8	20.4	22.1	24.1	
5.7%	12.3	13.1	14.1	15.1	16.2	17.4	18.8	20.4	22.1	
5.9%	11.5	12.2	13.1	14.0	15.0	16.1	17.4	18.8	20.4	
6.1%	10.7	11.4	12.2	13.0	13.9	14.9	16.1	17.3	18.8	
6.3%	9.9	10.6	11.3	12.1	12.9	13.9	14.9	16.0	17.3	
6.5%	9.2	9.8	10.5	11.2	12.0	12.9	13.8	14.8	16.0	
6.7%	8.6	9.1	9.8	10.4	11.1	11.9	12.8	13.7	14.8	
6.9%	8.0	8.5	9.1	9.7	10.3	11.1	11.9	12.7	13.7	
7.1%	7.4	7.9	8.4	9.0	9.6	10.3	11.0	11.8	12.7	
7.3%	6.8	7.3	7.8	8.3	8.9	9.5	10.2	10.9	11.7	
7.5%	6.3	6.8	7.2	7.7	8.2	8.8	9.4	10.1	10.9	

Source: Metzler Research

Key factors which may influence our earnings estimates

Cost overrun could result in significantly lower disposal results than we currently expect. In contrast, if Traumhaus was to prove that cost pressure can be mitigated, our current earnings forecast could be too cautious. Furthermore, we recognize the risk that in case of a further rapid increase of construction cost, the prices for land may decline, at least temporarily. In a bad case scenario, this could leave Traumhaus with too high prices paid for already secured land plots for new construction. In the very long run, however, we deem pretty unlikely that Traumhaus's land could lose value; in case of a prolonged time of high inflation, we would expect the company's land to gain in nominal value. Furthermore, if inflationary pressure was to ease and if wages and salaries were to catch-up with the recent inflationary development, this could lead to relatively high demand for Traumhaus's products.

Annotations to our model

EPS adj.: Our EPS calculation has been based on average shares outstanding (reconciled by Metzler Research). Our adjustments within EPS refer to profit/loss transfer and to other taxes, items which Traumhaus reports below the after-tax result.

Operating cash flow: Our operating cash flow calculation is ahead of changes in working capital. Within working capital, we have captured shorter-term provisions which the company sets-up, for example, for construction work which still has to be finished (in Traumhaus's case, net debt as shown in the tables following does not include any provisions for pensions etc.). Furthermore, changes in financial debt are in our model not part of working capital changes even if there is a close link between debt and working capital (e.g. short-term financing of working capital changes).

ROE is calculated on average equity (reconciled by Metzler Research).

Following a transfer of coverage, for technical reasons on the front page of this note the **percentage change in our estimates** is not displayed, even though our current earnings estimates have been altered compared to the previous piece of research.

company note

Key Data

Company profile

CEO: Otfried Sinner

CFO:

Wiesbaden

Traumhaus is a residential real estate project development company, including the execution of serial construction processes. The focus is on terraced and multi-family houses. The project sites are often located on the outskirts of major agglomerations in Germany, sometimes also within major cities.

Major shareholders

Otfried Sinner (69.05%), Markus Wenner (5.1%)

Key figures

P&L (in EUR m)	2019	%	2020	%	2021	%	2022e	%	2023e	%	2024e	%
Sales	86	58.6	86	-0.7	102	19.0	114	12.1	130	13.9	144	10.5
EBITDA	7	-1.4	10	33.8	13	31.3	12	-10.9	12	6.0	13	5.6
EBITDA margin (%)	8.6	-37.8	11.6	34.7	12.8	10.3	10.2	-20.5	9.5	-7.0	9.0	-4.5
EBIT	6	-1.6	9	36.7	12	35.6	11	-9.4	11	5.6	12	5.3
EBIT margin (%)	7.3	-38.0	10.0	37.7	11.4	13.9	9.2	-19.1	8.5	-7.2	8.1	-4.7
Financial result	-2	-147.7	-3	-24.7	-2	21.1	-2	-24.6	-3	-12.0	-3	-3.6
EBT	4	-23.8	6	42.6	10	59.6	8	-16.5	8	3.7	9	5.9
Taxes	2	-5.6	2	2.1	3	85.2	2	-21.5	2	3.7	3	5.9
Tax rate (%)	38.5	n.a.	27.5	n.a.	31.9	n.a.	30.0	n.a.	30.0	n.a.	30.0	n.a.
Net income	3	-32.0	4	67.9	7	49.9	6	-14.1	6	3.7	6	5.9
Minority interests	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Net Income after minorities	3	-32.0	4	67.9	7	49.9	6	-14.1	6	3.7	6	5.9
Number of shares outstanding (m)	5	5.9	5	3.1	5	3.6	5	0.0	5	0.0	5	0.0
EPS adj. (EUR)	0.74	-18.6	0.77	3.8	1.34	75.1	1.14	-15.0	1.18	3.7	1.25	5.9
DPS (EUR)	0.50	n.a.	0.50	0.0	0.60	20.0	0.60	0.0	0.60	0.0	0.60	0.0
Dividend yield (%)	3.3	n.a.	3.7	n.a.	3.6	n.a.	5.5	n.a.	5.5	n.a.	5.5	n.a.
Cash Flow (in EUR m)	2019	%	2020	%	2021	%	2022e	%	2023e	%	2024e	%
Operating Cash Flow	4	-8.2	5	28.8	7	33.2	7	-4.3	7	4.6	7	6.3
Increase in working capital	44	960.8	8	-81.7	-3	-131.5	9	446.1	7	-20.8	6	-7.1
Capital expenditures	3	-48.2	1	-61.4	6	461.4	3	-48.4	2	-33.3	2	0.0
Dividend paid	0	n.a.	0	n.a.	1	174.9	1	47.1	1	9.4	1	0.0
Free cash flow (post dividend)	-43	-775.7	-4	90.2	3	167.6	-6	-327.1	-3	46.6	-3	27.3
Balance sheet (in EUR m)	2019	%	2020	%	2021	%	2022e	%	2023e	%	2024e	%
Assets	140	33.8	119	-14.7	117	-1.5	138	17.1	152	10.2	166	9.2
Goodwill	5	-16.4	4	-22.8	3	-30.2	2	-20.0	2	-27.3	1	-37.5
Shareholders' equity	23	46.5	28	22.4	37	29.9	41	11.6	46	10.6	50	10.3
Net Debt incl. Provisions	46	n.m.	54	16.8	39	-27.8	46	18.0	50	8.0	52	5.2
Gearing (%)	198.9	n.a.	189.8	n.a.	105.5	n.a.	111.6	n.a.	109.1	n.a.	104.1	n.a.
Net debt/EBITDA	6.2	n.a.	5.4	n.a.	3.0	n.a.	4.0	n.a.	4.0	n.a.	4.0	n.a.

Structure

Sales by country 2021



Sources: Bloomberg, Metzler Research

ESG discussion

Newly constructed houses developed by Traumhaus count among the highest energy-efficiency classes in Germany. The company says to reduce the waste of building materials by serial construction and by the usage of module-based housing parts. It is planned to start the own production of wall modules in 2022; these modules shall have very good insulation features while simultaneously having relatively low energy needs in the manufacturing process. A head of sustainability function shall be implemented into the group's organizational structure in 2022, too.

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): Traumhaus (DE000A2NB7S2)					
28.03.2022	Buy	Buy	14.90 EUR	22.00 EUR	Bonhage, Stephan
21.01.2022	Buy	Buy	16.20 EUR	22.00 EUR	Bonhage, Stephan
29.10.2021	Buy	Buy	16.40 EUR	22.00 EUR	Bonhage, Stephan

* 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

Traumhaus

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company note

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Persons responsible for this document

The company responsible for preparing this document is B. Metzler seel. Sohn & Co. AG, Untermainanlage 1, 60329 Frankfurt am Main, Germany, which is subject to supervision by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin*), Marie-Curie-Straße 24–28, 60439 Frankfurt/Main, Germany, and by the European Central Bank (ECB), Sonnemannstraße 20, 60314 Frankfurt/Main, Germany.

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Metzler Capital Markets

B. Metzler seel. Sohn & Co. AG
Untermainanlage 1
60329 Frankfurt/Main, Germany
Phone +49 69 2104-extension
Fax +49 69 2104-679
www.metzler.com

Mario Mattera

Head of Capital Markets

Research	Pascal Spano	Head of Research	4365
Fax +49 69 283159			
	Guido Hoymann	Head of Equity Research	398
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