

Deutsche Beteiligungs

German private equity investor and manager

Deutsche Beteiligungs (DBAG) is a well-established private equity company investing primarily in mid-sized German companies. It also manages €2.1bn of third-party capital, which generates stable recurring fee income. DBAG invests in buyouts alongside its managed funds, with long-term investments made from its own balance sheet. This year, the company launched its new buyout fund (DBAG Fund VIII, with €1.1bn in commitments), which will translate into higher management fees.

NAV rebounding, though still below pre-COVID levels

DBAG saw a partial rebound of its investment portfolio value in Q320 (FY ending 30 September) due to higher market multiples. While this had a €60.6m net positive impact in 9M20, it was more than offset by reduced earnings forecasts for some DBAG's portfolio companies, especially in its core sectors (eg automotive). As a result, DBAG's NAV total return (TR) in 9M20 to end June was -4.8%. Meanwhile, the fund services business delivered a solid €6.6m profit in 9M20 (vs €1.6m in 9M19). In February, DBAG distributed its annual dividend implying a 4.7% yield on the current share price, but does not guide on the level of the next payout.

New transactions on the back of M&A market revival

As at end June 2020, DBAG's portfolio consisted of 28 investments, of which 46% (in portfolio value) were in the core sectors of German industrials and 38% in focus sectors, predominantly related to broadband telecommunications. In August 2020, DBAG performed a management buyout (MBO) of Multimon, which marked the first transaction of DBAG Fund VIII and triggered collecting fees from the whole amount of committed capital. Recently the M&A market has recovered, allowing DBAG to announce five new investments after the end-June 2020 reporting date: two MBOs in 'focus' and two in its 'core' sectors as well as the first long-term investment performed solely by DBAG. Moreover, DBAG continues its buy-and-build strategy, with 13 add-on acquisitions agreed by portfolio companies in 9M20 (most of which performed without DBAG's capital support).

Valuation: Premium to NAV at c 16%

Despite briefly trading at a 23% discount to NAV amid the market downturn earlier this year, DBAG's shares have rebounded to trade at a premium to NAV, which in our view is driven by the market-implied value of the fund services business. The current premium to end-June NAV is c 16%, which is still below the five-year average of 27%. If we assume that DBAG's portfolio of investments is trading in line with peers (LPX Europe Index), it implies an LTM (last 12 months) earnings multiple of the fund services business at c 18x.

12 months ending	Total share price return (%)	Total NAV return (%)	LPX Europe (%)	LPX Europe NAV (%)	SDAX (%)
06/17	51.3	27.1	29.9	17.0	23.5
06/18	(9.0)	9.9	9.3	10.8	10.2
06/19	1.0	3.3	5.9	6.5	(4.8)
06/20	(5.8)	0.7	(12.7)	1.4	1.4

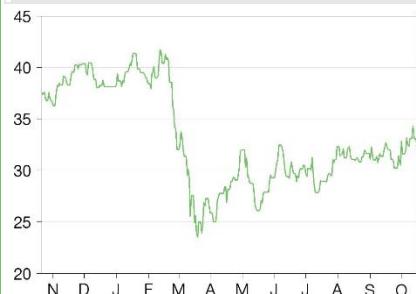
Source: Refinitiv. Note: Discrete rolling 12-month total return performance in euros up to last reported NAV.

Private equity

19 October 2020

Price **€31.80**
Market cap **€477m**

Share price graph



Share details

Code **DBAN**
Shares in issue **15.0m**
Net cash at end-June 2020 **€16.5m**

Business description

Deutsche Beteiligungs is a Germany-based and listed private equity investment and fund management company that invests in mid-sized companies in Germany and neighbouring German-speaking countries via MBO transactions and growth capital financings. There is a focus on growth-driven profitable businesses valued between €50m and €250m. DBAG's core objective is to sustainably increase net asset value.

Bull

- Steady income from the fund services segment.
- Growing exposure to broadband/telecommunications, IT and healthcare.
- Solid track record with 2.7x average MBO exit multiple since 1998.

Bear

- High exposure to German industrials sector, which experiences headwinds.
- COVID-related liquidity shortages at some portfolio holdings.
- Limited exits from new 'focus' sectors so far.

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