

Godewind Immobilien AG

Germany / Real Estate
 Frankfurt Stock Exchange
 Bloomberg: GWD GR
 ISIN: DE000A2G8XX3

H1/19
 Results

RATING
BUY

PRICE TARGET
€ 5.90

Return Potential 63.0%
 Risk Rating Medium

H1 RESULTS PROVIDE INITIAL GAUGE OF OPERATING POTENTIAL

Six month results were in line with prelims published 23 July and our expectations. Rental income climbed to €11.5m in H1/19 with FFO 1 of some €2.8m. Net income for the six month period topped €3m, thanks in particular to strong revaluations in Q2 spurred by vacancy reductions. NAVPS rose to €4.5 vs €3.7 at YE18, while the portfolio value, including City Gate, amounted to €950m on a pro-forma basis (H1/19: €855m). Management confirmed full-year guidance for FFO 1 of €8.5m to €9.5m. We expect an even stronger H2 with greater portfolio contributions and further tenant wins to reduce vacancies. Our rating remains Buy with a €5.9 price target.

Right market position and undervalued In our view, Godewind is well positioned in the sweet spot of the German real estate market. The office segment continues to benefit from strong macro impulses. And the office segment is less likely to encounter regulatory turbulence currently troubling the residential sector. We also believe management credibility, which had been somewhat tarnished during the post-IPO slow start, has been re-established particularly with the delivery of recent tenant wins and accompanying vacancy reductions. The company is tracking well towards our full year targets (FFOPS: €0.08; NAVPS: €4.8). We thus think it is only a matter of time before the lacklustre share price performance begins to reflect the good operational momentum of the past months.

Good Q2 should also help sentiment Q2 results confirmed the company's operational strengths with both earnings and NAV rising strongly. Commercial properties totalled €855m (+184% YTD) or €950m on a pro-forma basis (+215% YTD). FFOPS 1 totalled €0.03 in H1 and NAVPS climbed 24% in the second quarter. Annualised comparisons are not relevant given the early stage of operations in 2018. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019E	2020E	2021E
Net rent (€m)	0.00	0.55	28.80	40.39	42.84
Adj. EBITDA (€m)	-0.45	-6.84	17.13	31.3	35.1
Net income (€m)	0.05	9.37	109.30	86.96	69.58
EPS (diluted) (€)	0.00	0.11	1.01	0.80	0.64
EPRA NAV (€m)	18.56	396.39	517.35	609.00	672.96
NAVPS (€)	0.00	3.65	4.76	5.60	6.19
DPS (€)	0.00	0.00	0.05	0.12	0.14
FFO 1 (€m)	0.05	-3.77	9.07	20.96	24.77
FFOPS 1 (€)	0.0	-0.04	0.08	0.19	0.23
Liquid assets (€m)	19.17	157.75	18.08	20.96	29.40

RISKS

Risks include, but are not limited to, geopolitical uncertainties, weaker than expected trends for German office markets, failure to capture expected reversionary potential, or weaker than forecasted acquisitions.

COMPANY PROFILE

Godewind is a real estate landlord specialised in the acquisition and management of commercial properties throughout Germany. The company focuses on building a diverse portfolio of Core(+) and value-add assets and presently concentrates on office buildings.

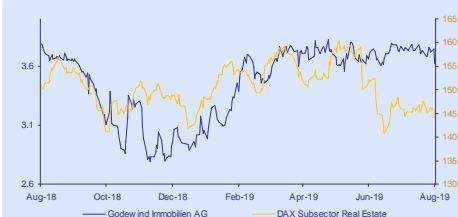
MARKET DATA

As of 13 Aug 2019

Closing Price	€ 3.62
Shares outstanding	108.75m
Market Capitalisation	€ 393.68m
52-week Range	€ 2.79 / 3.83
Avg. Volume (12 Months)	84,640

Multiples	2018	2019E	2020E
P/FFO 1	n.a.	43.4	18.8
P/EPRA NAV	1.0	0.8	0.6
FFO 1 Yield	n.a.	2.3%	5.3%
Div. Yield	0.0%	1.4%	3.2%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019

Liquid Assets	€ 14.48m
Current Assets	€ 20.05m
EPRA NAV	€ 487.73m
Total Assets	€ 891.30m
Current Liabilities	€ 7.61m
Total Equity	€ 467.12m

SHAREHOLDERS

K. Ehlerding	13.5%
Stavros Efremidis	12.0%
Treasury shares	1.3%
Free Float	73.2%

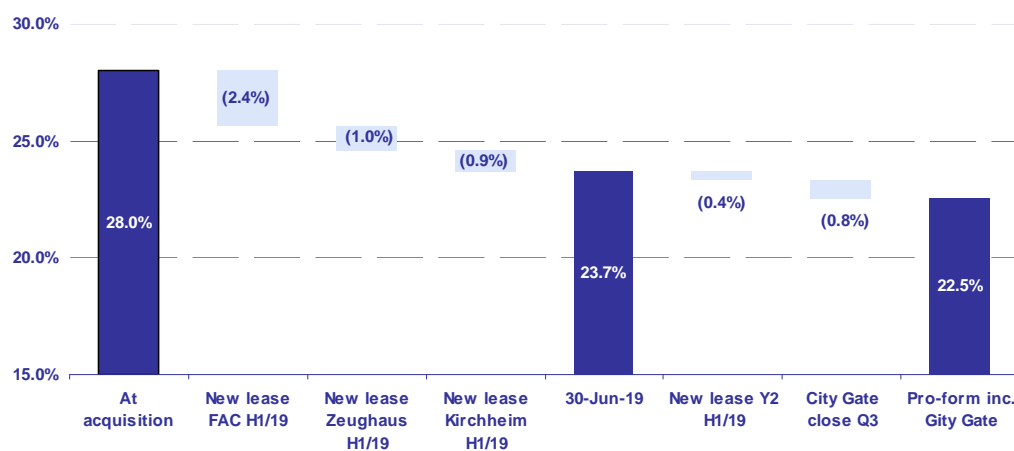
**Table 1: H1 results vs forecasts**

in € '000	H1/19	H1/19E	variance	H1/18	variance
Net rental income	11,454	11,500	-0.4%	0	n.a.
Adjusted EBITDA	4,408	4,338	1.6%	-2,287	n.a.
Margin	38%	38%	-	n.a.	-
FFO 1	2,759	2,711	1.8%	-987	n.a.
Margin	24%	24%	-	n.a.	-
FFOPS 1 (€)	0.03	0.03	1.8%	-0.02	n.a.

Source: First Berlin Equity Research; Godewind Immobilien AG

Net rental income (NRI) reached €11.5m in H1 and matched our target. On a quarterly basis, NRI improved to €7.3m vs €4.1m in Q1/19, thanks to the stronger contribution of the acquired properties. On an annualised basis, the KPI now stands at €42m. Adjusted EBITDA, which reflects recurring operational profit excluding revaluation effects, amounted to €4.4m in H1 and €2.5m in Q2 equating to a 28% QQ increase.

FFO 1, the key industry indicator for recurring cash flow, was close to our estimate and totalled €2.8m for the six month period. On a quarterly basis, FFO 1 totalled €1.2m vs €1.6m in Q1. The first quarter result benefited from a high amount of equity financed properties prior to the addition of debt components in Q2. Overall, the company is thus tracking well towards guidance (FFO 1: €8.5m to €9.5m).

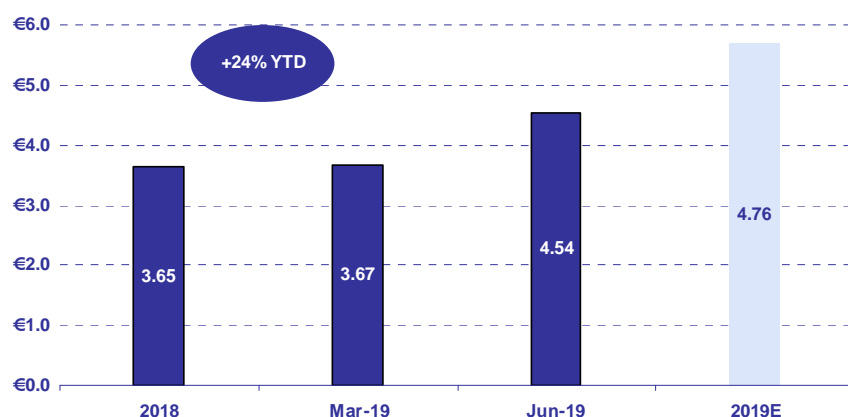
Figure 1: Vacancy rate development in 2019

Source: First Berlin Equity Research; Godewind Immobilien AG

Property revaluations surged in Q2 to €83m (Q1/19: €0m). The sharp rise underscores the company's ability to extract embedded value through asset optimisation—in particular the recent vacancy reductions. The new leases signed at FAC, Zeughaus and Kirchheim spurred the strong result. Net income thus reached €73m for H1 equating to EPS of €0.67.



Figure 2: EPRA NAVPS development



Source: First Berlin Equity Research; Godewind Immobilien AG

As of 30 June, EPRA NAV totalled €488m (€4.5 / share) compared to €396m at year end 2018 (€3.7 / share, +24%). NAV growth owes predominantly to the strong net profit of €73m recorded for the six month period. Adjusted for deferred tax and the market value of financial instruments, EPRA NNAV, was reported at €459m or €4.3/ share for the six month mark.

Table 2: Financial highlights

All figures in €'000	H1/19	2018	Variance
Cash and liquid assets	14,479	157,745	-90.8%
Investment property	855,005	300,905	184.1%
Total assets	891,276	503,054	77.2%
Net debt	393,540	-59,305	-
Total equity	467,118	397,251	17.6%
Equity ratio	52%	79%	-
EPRA NAV	487,728	396,393	23.0%
Loan-to-Value (LTV)	46%	-20%	-

Source: First Berlin Equity Research; Godewind Immobilien AG

The debt structure featured an LTV of 46% alongside a ~1.38% average cost of debt with a 4 year maturity, which ranks favourably among the German commercial landlords and provides good financial flexibility. The interest coverage ratio (ICR) stood at 2.1x.

Conference call notes The company confirmed on the conference call that it is 'nearly' fully invested at the moment. Plus, management reiterated that a capital increase will only be considered once the share price is comfortably north of €4.0. However, they also noted that they will look at options to replenish the financial coffers through debt refinancing. Given the sharp increase in several property valuations, we believe this could provide a solid cash injection to capitalise on the still full pipeline.

**Table 3: Pro-forma portfolio overview YTD**

	Type	Lettable area (m ²)	Vacancy	GAV (€'000)	GAV (€/m ²)	R (€'000) p.a.	Rent /€m ²	Yield	WALT
Core (+) properties									
ComCon, Frankfurt	Office	16,264	14%	37,300	2,293	2,039	11.0	5.4%	3.0
Airport Centre, Düsseldorf	Office	13,048	16%	42,100	3,227	1,800	13.4	4.4%	3.8
Pentahof, Hamburg	Office	25,345	0%	64,100	2,529	2,952	8.7	4.7%	4.4
Zeughaus, Hamburg	Office	43,522	5%	185,100	4,253	7,900	13.5	4.3%	3.4
City Gate, Frankfurt*	Office	23,320	13%	90,500	3,881	3,800	14.6	4.2%	6.5
Core (+) total		121,499	8%	419,100	3,449	18,491	11.7	4.4%	4.2
Manage-to-core									
Sunsquare, Munich	Office	19,492	48%	41,800	2,144	1,300	12.1	3.1%	5.7
Frankfurt Airport Centre	Office	48,486	6%	213,900	4,412	11,400	20.2	5.3%	7.8
Y2, Frankfurt	Office	30,930	32%	58,500	1,891	2,800	11.3	4.9%	4.9
Aschheim, Munich	Office	17,612	51%	31,500	1,789	1,100	10.0	3.5%	3.7
Herzog-Terrassen, Düsseldorf	Office	55,717	45%	180,700	3,243	6,700	20.3	3.7%	6.1
Manage-to-core total		172,237	33%	526,400	3,056	23,300	17.1	4.4%	6.6
Portfolio total		293,736	23%	945,500	3,219	41,791	14.4	4.4%	5.6

Source: First Berlin Equity Research; Godewind Immobilien AG

Stock remains attractively valued H1 featured several operational milestones led by new acquisitions, portfolio optimisation through key tenant wins, and securing debt financing. We expect these factors to spur a strong finish to 2019 after only ~half the portfolio contributed to H1 FFO. The company announced plans to pay out a dividend on 2019 earnings equal to 60% of FFO, which matches our running assumption. With external growth currently idling, the existing assets embed upside to some €1.2bn over the mid term, due to ample operational upside. Meanwhile the stock is trading at a 23% discount to pro-forma NAV. We reiterate our rating Buy and €5.9 price target.



VALUATION

ECONOMIC PROFIT MODEL

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	17	31	35	38	39
(+) Revaluations	102	68	46	41	25
(-) Tax Expense	-3	-2	-2	-2	-6
NOPAT	116	96	79	77	58
Total assets	1,033	1,154	1,220	1,281	1,281
(-) Current liabilities	4	4	5	5	5
(+) Current financial debt	0	0	0	0	0
(-) Cash	18	21	29	44	44
(+) Deferred taxes	15	25	32	38	38
Capital employed (CE)	1,026	1,154	1,219	1,271	1,271
Average CE	682	1,090	1,186	1,245	1,271
ROCE	17.0%	8.8%	6.7%	6.2%	4.6%
WACC	4.3%	4.3%	4.3%	4.3%	4.3%
ROCE-WACC	12.7%	4.5%	2.4%	1.9%	0.3%
Economic Profit	86.5	49.4	28.0	23.1	3.5
NPV	85.1	46.6	25.3	20.0	108.6
Fair value calculation					
Total return	286				
(+) NAV 2018	396				
(-) Dividend to be paid	0				
Equity value	682				
Diluted SO ('000)	109				
Fair value per share (€)	6.30				

DISCOUNTED DIVIDEND MODEL

	2019E	2020E	2021E	2022E	TV
FFOPS 1 (€)	0.08	0.19	0.23	0.25	0.26
Payout ratio	60%	60%	60%	60%	60%
Dividend (DPS) (€)	0.05	0.12	0.14	0.15	0.16
Y/Y	n.a.	131%	18%	12%	1.5%
NPV (€)	0.05	0.11	0.12	0.13	4.84
Terminal growth rate	1.5%				
Discount factor	4.3%				
NPV of dividends (€)	0.41				
NPV of TV (€)	4.84				
Fair value per share (€)	5.30				

PRICE TARGET OVERVIEW

	Weighting	Values
Economic profit model	60%	6.30
Discounted dividend model	40%	5.30
Target price (€)		5.90
Share price (€)		3.79
Return potential		55.9%
Dividend yield		1.3%
Total return potential		57.2%



INCOME STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Net rental income	0	548	28,801	40,389	42,844
Recoverable operating costs	0	152	5,083	7,127	7,561
Revenue from other trade receivables	0	12	0	0	0
Property management income	0	712	33,884	47,516	50,405
Property OpEx	0	-134	-4,981	-6,343	-6,729
Gains on disposal	0	0	0	0	0
Revaluation gains	0	10,756	101,637	67,560	46,341
Other operating income	43	49	0	0	0
Personnel expenses	-8	-4,114	-4,258	-4,407	-4,561
Other operating expenses	-481	-3,350	-7,517	-5,485	-4,055
Depreciation & amortisation	0	-22	-34	-48	-50
Operating income	-446	3,897	118,731	98,793	81,350
Net financial result	496	-255	-5,195	-7,361	-7,554
Other financial expenses	0	0	0	0	0
Pre-tax income (EBT)	50	3,642	113,536	91,432	73,797
Income taxes	0	6,488	-2,838	-2,469	-2,214
Net income / loss (NI)	50	10,129	110,698	88,963	71,583
Other tax & income	-616	-52	0	0	0
Comprehensive NI	-566	10,077	110,698	88,963	71,583
Minority interests	0	-758	-1,400	-2,000	-2,000
Net income after minorities	-566	9,319	109,298	86,963	69,583
Basic EPS (in €)	n.m.	0.11	1.01	0.80	0.64
Diluted EPS (in €)	n.m.	0.11	1.01	0.80	0.64
Adjusted EBITDA	-446	-6,837	17,128	31,280	35,060
Ratios					
Adj. EBITDA margin	n.m.	n.m.	59.5%	77.4%	81.8%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Expenses as % of revenues					
Personnel expenses	n.m.	577.9%	12.6%	10.9%	10.6%
Other operating expenses	n.m.	470.6%	22.2%	11.5%	8.0%
Y-Y Growth					
Rental income	n.a.	n.m.	4659.8%	40.2%	6.1%
Adj. EBITDA	n.a.	n.m.	n.m.	82.6%	12.1%
Net income/ loss	n.a.	n.a.	992.8%	-19.6%	-19.5%
Net income	50	10,129	110,698	88,963	71,583
Tax result	0	-6,488	2,838	2,469	2,214
Pre-tax income	50	3,641	113,536	91,432	73,797
Capital gains, property revaluations and other	0	-10,756	-101,637	-67,560	-46,341
Depreciation & amortisation	0	23	24	25	26
Result from disposals	0	0	0	0	0
Other non-cash expenses	0	1,242	0	0	0
One-off expenses	0	2,082	441	0	0
Tax expense relevant to FFO	0	0	-2,838	-2,469	-2,214
Attributable to non-controlling interest	0	0	-451	-473	-497
FFO 1	50	-3,768	9,075	20,955	24,771



BALANCE SHEET

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Assets					
Current assets, total	19,516	159,983	21,789	26,167	34,920
Cash and cash equivalents	19,172	157,745	18,076	20,960	29,396
Assets held for sale	0	0	0	0	0
Trade receivables	344	142	3,713	5,207	5,524
Other current assets	0	2,096	0	0	0
Non-current assets, total	95	343,071	1,011,029	1,127,677	1,185,499
Property, plant & equipment	0	480	497	521	546
Intangible assets	0	85	99	118	138
Investment property	0	300,905	965,142	1,077,702	1,131,043
Advanced payments	0	34,273	37,700	41,470	45,617
Deferred taxes	0	6,711	6,912	7,120	7,333
Other LT assets	95	617	679	747	821
Total assets	19,611	503,054	1,032,818	1,153,844	1,220,418
Shareholders' equity & debt					
Current liabilities, total	676	6,955	3,657	4,213	4,550
Short-term debt	0	0	0	0	0
Trade payables	668	4,795	1,281	1,599	1,675
Provisions & current liabilities	8	2,160	2,376	2,614	2,875
Long-term liabilities, total	374	98,848	521,213	558,164	565,392
Corporate debt	0	0	0	0	0
Long-term bank debt	0	87,528	494,388	520,938	520,938
Other liabilities	374	11,320	11,579	11,847	12,123
Deferred tax liabilities	0	0	15,246	25,380	32,331
Shareholders' equity	18,561	392,802	502,100	583,618	640,628
Minority interests	0	4,449	5,849	7,849	9,849
Total equity	18,561	397,251	507,949	591,467	650,477
Total consolidated equity and debt	19,611	503,054	1,032,818	1,153,844	1,220,418
Ratios					
EPRA NAV	18,561	396,393	517,345	608,997	672,958
NAVPS (€)	n.m.	3.7	4.8	5.6	6.2
Net debt	-19,172	-59,305	487,443	511,331	503,122
Interest cover (ICR)	-	-26.4x	3.3x	4.2x	4.6x
Equity ratio	94.6%	79.0%	49.2%	51.3%	53.3%
Loan-to-value (LTV)	-	32.7%	52.4%	49.4%	47.1%
Net LTV	-	-	50.5%	47.4%	44.5%



CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Net income	50	10,129	110,698	88,963	71,583
Non-cash gains / losses	0	-10,756	-101,637	-67,560	-46,341
Gains / losses from measurement of securities	-511	0	0	0	0
Other non-cash expenses / income	0	1,231	0	0	0
Depreciation & amortisation	0	22	34	48	50
Net financial result	-1	255	5,195	7,361	7,554
Tax result	0	-6,488	2,838	2,469	2,214
Operating cash flow	-462	-5,607	17,128	31,280	35,060
Trade receivables & other assets	233	3,360	-4,990	-1,176	-241
Trade & other payables	0	33	15,721	10,639	7,489
Provisions and other liabilities	1	0	-2,838	-2,469	-2,214
Tax paid					
Net operating cash flow	-228	-2,214	25,021	38,275	40,094
Investment in fixed/intangible assets	0	-857	-64	-90	-96
Outflows for investment property	0	-222,103	-566,229	-48,977	-11,361
Inflows from asset disposals	11,558	0	0	0	0
Outflows for financial assets	-5,591	0	-62	-68	-75
Interest income	47	1	0	0	0
Cash flow from investing	6,014	-222,959	-566,355	-49,136	-11,531
Debt financing, net	-2,995	0	406,860	26,550	0
Equity financing, net	14,500	364,731	0	0	0
Interest paid	-47	-243	-5,195	-7,361	-7,554
Dividends paid	0	0	0	-5,445	-12,573
Others	0	-745	0	0	0
Cash flow from financing	11,458	363,743	401,665	13,744	-20,127
Net cash flows	17,244	138,573	-139,669	2,884	8,436
Cash, start of the year	1,928	19,172	157,745	18,076	20,960
Cash, end of the year	19,172	157,745	18,076	20,960	29,396
FFO 1	50	-3,768	9,075	20,955	24,771
FFOPS 1 (€)	n.m.	-0.04	0.08	0.19	0.23
Y-Y Growth					
FFO 1	n.m.	n.a.	n.m.	131%	18%
FFOPS 1	n.m.	n.a.	n.m.	131%	18%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 March 2019	€3.49	Buy	€5.50
2	8 May 2019	€3.73	Buy	€5.50
3	23 May 2019	€3.63	Buy	€5.80
4	23 July 2019	€3.79	Buy	€5.90
5	Today	€3.62	Buy	€5.90

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PRICE TARGET DATES

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The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

INVESTMENT HORIZON

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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