

Godewind Immobilien AG

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

Q3
 Results

RATING
BUY

PRICE TARGET
€ 6.00

Return Potential 41.8%
 Risk Rating Medium

NAVPS UP 48% YTD; PORTFOLIO HITS €1BN MILESTONE

Nine month results highlighted the good operational progress from the past months and were in line with our expectations. Rental income climbed to €20.4m in 9M/19 with FFO 1 of some €5.1m. Net income for the nine month period reached €135m, thanks in particular to strong revaluations (€70m) in Q3 spurred by vacancy reductions. NAVPS rose to €5.4 vs €3.7 at YE18 and already tops our full year target, due to aforementioned revaluations. The portfolio value climbed above €1bn for the first time. Management confirmed full-year guidance for FFO 1 of €8.5m to €9.5m vs FBe 2019 FFO 1 of €9.0m. We raise our price target to €6.0 (old: €5.9) on higher revaluations. Our rating remains Buy.

Sentiment turning positive despite Herzogterrassen worries In our view, positive YTD headlines on tenant wins and the accompanying vacancy reductions have boosted management credibility. This had been somewhat tarnished during the post-IPO slow start. The value created this year overshoot our projections with NAVPS now north of €5.4 (FBe: €4.8), and the company is tracking well towards our FFO 1 target. With vacancy scepticism now in the rear view mirror, sentiment has been hurt lately by WeWork solvency concerns (discussion overleaf). The troubled office rental company is the anchor tenant at GWD'S Herzogterrassen property, but we think concerns over a potential bust are overblown. Once the market recalibrates these concerns, we think it is only a matter of time before the share price performance better reflects the good operational momentum of the past months.

Q3 results a good gauge of operational strength Commercial properties broke the €1bn barrier (+239% YTD). NAVPS climbed 19% Q/Q and is up 48% YTD. Net rental income (NRI) reached €20.4m in 9M and beat our target.
 (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	31.28	35.10
Net income (€m)	0.05	9.37	150.23	80.77	65.22
EPS (diluted) (€)	0.00	0.11	1.41	0.70	0.64
EPRA NAV (€m)	18.56	396.39	611.95	673.11	733.16
NAVPS (€)	0.00	3.65	5.71	6.28	6.84
DPS (€)	0.00	0.00	0.05	0.12	0.14
FFO 1 (€m)	0.05	-3.77	9.08	20.96	24.77
FFOPS 1 (€)	0.0	-0.04	0.08	0.20	0.23
Liquid assets (€m)	19.17	157.75	29.60	24.90	29.18

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.

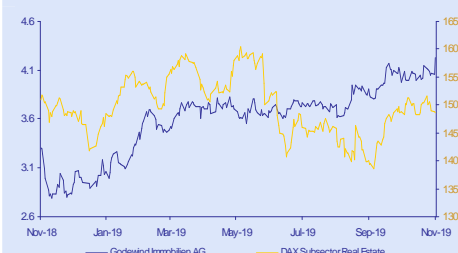
MARKET DATA

As of 12 Nov 2019

Closing Price	€ 4.23
Shares outstanding	107.25m
Market Capitalisation	€ 453.67m
52-week Range	€ 2.79 / 4.23
Avg. Volume (12 Months)	86,297

Multiples	2018	2019E	2020E
P/FFO 1	n.a.	50.0	21.6
P/EPRA NAV	1.2	0.7	0.7
FFO 1 Yield	n.a.	2.0%	4.6%
Div. Yield	0.0%	1.2%	2.7%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2019

Liquid Assets	€ 27.71m
Current Assets	€ 30.17m
EPRA NAV	€ 579.11m
Total Assets	€ 1,059.36m
Current Liabilities	€ 43.45m
Total Equity	€ 529.13m

SHAREHOLDERS

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

**Table 1: Q3 results vs forecasts**

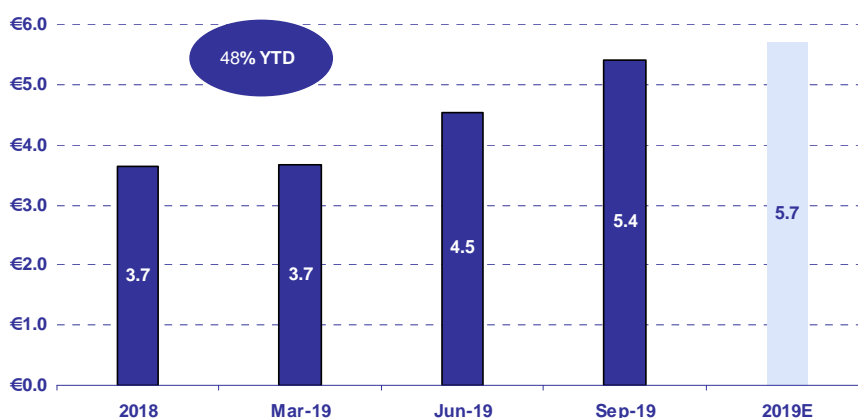
in €'000	Q3/19	Q3/19E	variance	Q3/18	variance	9M/19	9M/18	variance
Net rental income	8,963	8,563	4.7%	0	n.a.	20,417	0	n.a.
Adjusted EBITDA	3,936	3,540	11.2%	-1,132	n.a.	8,344	-3,419	n.a.
Margin	44%	41%	-	n.a.	-	41%	n.a.	-
FFO 1	2,348	2,078	13.0%	-845	n.a.	5,107	-1,832	n.a.
Margin	26%	24%	-	n.a.	-	25%	n.a.	-
FFOPS 1 (€)	0.02	0.02	13.0%	-0.02	n.a.	0.05	-0.02	n.a.

Source: First Berlin Equity Research; Godewind Immobilien AG

On a quarterly basis, NRI improved to €9.0m vs €7.3m in Q2/19, thanks to the stronger contribution of the acquired properties. On an annualised basis, the rental income run rate now stands at €49.5m. Adjusted EBITDA, which reflects recurring operational profit excluding revaluation effects, amounted to €8.3m in 9M and €3.9m in Q3 equating to a 56% Q/Q increase.

FFO 1, the key industry indicator for recurring cash flow, beat our number and totalled €5.1m for the nine month period. On a quarterly basis, FFO 1 totalled €2.3m vs €1.2m in Q2. Overall, the company is tracking well towards guidance (FFO 1: €8.5m to €9.5m) and FBe FFO 1 of €9.0m.

Property revaluations were strong at €70m in Q3 and hit €153m on a nine month basis. Net income thus reached €135m for 9M equating to EPS of €1.24. The new tenancy agreement with WeWork for Herzogterrassen (see note of 26 August 2019) spurred the strong result and underscores the company's ability to execute its value-add strategy—in particular quickly reduce high vacancies. Herzogterrassen was acquired with 45% vacancy in April. Occupancy is now near 100%.

Figure 1: NAVPS development

Source: First Berlin Equity Research; Godewind Immobilien AG

As of 30 September, EPRA NAV totalled €579m (€5.4 / share) compared to €396m at year end 2018 (€3.7 / share, +48%). NAV growth owes predominantly to the strong net profit of €135m recorded for the nine month period. Adjusted for deferred tax and the market value of financial instruments, EPRA NNAV, was reported at €523m or €4.9 / share for the nine month mark.



The debt structure featured an LTV of 46.5% alongside a ~1.4% 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 1.5x. GWD can also free up some €60m to €70m in cash. Herzogterrassen and City Gate are saddled with outdated financing terms that can now be reworked on higher valuations to cut interest costs and provide financial firepower for acquisitions.

Table 2: Financial highlights

All figures in €'000	9M/19	2018	Variance
Cash and liquid assets	27,714	157,745	-82.4%
Investment property	1,021,882	300,905	239.6%
Total assets	1,059,360	503,054	110.6%
Net debt	475,123	-59,305	-
Total equity	529,126	397,251	33.2%
Equity ratio	50%	79%	-
EPRA NAV	579,117	396,393	46.1%
Loan-to-Value (LTV)	47%	-20%	-

Source: First Berlin Equity Research; Godewind Immobilien AG

WHAT IS THE WEWORK RISK?

In August, GWD leased 21,500 m² at Herzogterrassen to WeWork. The shared workspace provider ran into financial trouble and was recently bailed out by Softbank after cancelling the planned IPO. The Japanese tech giant upped its stake in the office rental company to ~80%. The beleaguered WeWork is back on a stable footing for now and has sobered up market expectations.

GWD exposure We think investor fears are overblown. Although WeWork ranks among the largest GWD tenants, the landlord's financial risk in the event of WeWork insolvency is marginal. GWD has invested ~€11m in conversion CapEx into Herzogterrassen and has agreed to reimburse WeWork for <€22m for its own customised conversions to facilitate operations. Godewind holds cash bank guarantees of €7m and a €21m letter of comfort. In a worst case scenario, WeWork moves in, tailors its workspace for €22m and goes bust. Under this scenario Godewind suffers a €15m loss for the reimbursed refurbishments since it holds a €7m cash security deposit. The €11m in revitalisation costs were due regardless and are not a write-off in our view.

The upshot This worst case scenario equates to €0.09 NAVPS exposure, or <1.7% of reported 9M NAVPS. Plus, GWD can ratchet up the property's rental income to ~€14m (now: €12.5m) by renting out the property's still vacant retail and storage spaces to offset this risk.

PERFORMANCE REMAINS UNDERAPPRECIATED BY THE MARKET

We have bumped up our FBe revaluation gains for 2019 to reflect the YTD outperformance, which increases our 2019 NAVPS target to €5.7 (old: €48). Our price target moves to €6.0 (old: €5.9) on this revision and a slightly lower diluted share count (minus 1.5m treasury shares). Our rating remains Buy.



VALUATION

ECONOMIC PROFIT MODEL

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	17	31	35	38	39
(+) Revaluations	168	72	49	43	26
(-) Tax Expense	-3	-2	-2	-2	-6
NOPAT	182	101	82	79	59
Total assets	1,089	1,205	1,267	1,325	1,325
(-) Current liabilities	5	5	6	6	6
(+) Current financial debt	0	0	0	0	0
(-) Cash	30	25	29	41	41
(+) Deferred taxes	25	36	43	50	50
Capital employed (CE)	1,080	1,210	1,276	1,328	1,328
Average CE	709	1,145	1,243	1,302	1,328
ROCE	25.7%	8.8%	6.6%	6.1%	4.4%
WACC	4.3%	4.3%	4.3%	4.3%	4.3%
ROCE-WACC	21.4%	4.5%	2.3%	1.8%	0.1%
Economic Profit	151.6	51.6	28.6	23.3	1.4
NPV	150.7	49.2	26.2	20.4	42.8
Fair value calculation					
Total return	289				
(+) NAV 2018	396				
(-) Dividend to be paid	0				
Equity value	686				
Diluted SO ('000)	107				
Fair value per share (€)	6.40				

DISCOUNTED DIVIDEND MODEL

	2019E	2020E	2021E	2022E	TV
FFOPS 1 (€)	0.08	0.20	0.23	0.26	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	4.90
Terminal growth rate	1.5%				
Discount factor	4.3%				
NPV of dividends (€)	0.42				
NPV of TV (€)	4.90				
Fair value per share (€)	5.30				

PRICE TARGET OVERVIEW

	Weighting	Values
Economic profit model	60%	6.40
Discounted dividend model	40%	5.30
Target price (€)		6.00
Share price (€)		4.23
Return potential		41.8%
Dividend yield		1.2%
Total return potential		43.0%



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	167,848	72,195	49,388
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	184,943	103,428	84,397
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	179,747	96,067	76,843
Income taxes	0	6,488	-2,838	-2,468	-2,216
Deferred taxes	0	0	-25,177	-10,829	-7,408
Net income / loss (NI)	50	10,129	151,732	82,769	67,219
Other tax & income	-616	-52	0	0	0
Comprehensive NI	-566	10,077	151,732	82,769	67,219
Minority interests	0	-758	-1,500	-2,000	-2,000
Net income after minorities	-566	9,319	150,232	80,769	65,219
Basic EPS (in €)	n.m.	0.11	1.38	0.74	0.60
Diluted EPS (in €)	n.m.	0.11	1.38	0.74	0.60
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.	n.m.	40.2%	6.1%
Adj. EBITDA	n.a.	n.m.	n.m.	82.6%	12.1%
Net income/ loss	n.a.	n.a.	n.m.	-45.5%	-18.8%
Net income	50	10,129	151,732	82,769	67,219
Tax result	0	-6,488	28,015	13,297	9,624
Pre-tax income	50	3,641	179,747	96,067	76,843
Capital gains, property revaluations and other	0	-10,756	-167,848	-72,195	-49,388
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	-2,468	-2,216
Attributable to non-controlling interest	0	0	-451	-473	-497
FFO 1	50	-3,768	9,075	20,956	24,769
FFOPS 1 (€)	0.00	-0.04	0.08	0.20	0.23



BALANCE SHEET

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Assets					
Current assets, total	19,516	159,983	33,317	30,105	34,699
Cash and cash equivalents	19,172	157,745	29,604	24,898	29,175
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	1,055,525	1,174,477	1,232,777
Property, plant & equipment	0	480	497	521	546
Intangible assets	0	85	99	118	138
Investment property	0	300,905	1,031,353	1,148,548	1,204,936
Advanced payments	0	34,273	13,709	15,080	16,588
Deferred taxes	0	6,711	3,356	3,456	3,560
Other LT assets	95	617	6,512	6,755	7,009
Total assets	19,611	503,054	1,088,843	1,204,583	1,267,476
Shareholders' equity & debt					
Current liabilities, total	676	6,955	4,737	5,401	5,857
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	3,456	3,802	4,182
Long-term liabilities, total	374	98,848	536,382	574,134	581,925
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	16,817	17,189	17,572
Deferred tax liabilities	0	0	25,177	36,006	43,415
Shareholders' equity	18,561	392,802	541,775	617,099	669,745
Minority interests	0	4,449	5,949	7,949	9,949
Total equity	18,561	397,251	547,724	625,048	679,694
Total consolidated equity and debt	19,611	503,054	1,088,843	1,204,583	1,267,476
Ratios					
EPRA NAV	18,561	396,393	611,952	673,106	733,160
NAVPS (€)	n.m.	3.7	5.7	6.3	6.8
Net debt	-19,172	-59,305	481,152	512,735	508,792
Interest cover (ICR)	-	-26.4x	3.3x	4.2x	4.6x
Equity ratio	94.6%	79.0%	50.3%	51.9%	53.6%
Loan-to-value (LTV)	-	32.7%	49.5%	46.8%	44.6%
Net LTV	-	-	46.7%	44.6%	42.2%



CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Net income	50	10,129	151,732	82,769	67,219
Non-cash gains / losses	0	-10,756	-167,848	-72,195	-49,388
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	28,015	13,297	9,624
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	6,793	718	763
Provisions and other liabilities	1	0	-2,838	-2,468	-2,216
Tax paid					
Net operating cash flow	-228	-2,214	16,093	28,355	33,367
Investment in fixed/intangible assets	0	-857	-64	-90	-96
Outflows for investment property	0	-222,103	-538,681	-46,472	-8,612
Inflows from asset disposals	11,558	0	0	0	0
Outflows for financial assets	-5,591	0	-5,895	-243	-255
Interest income	47	1	0	0	0
Cash flow from investing	6,014	-222,959	-544,640	-46,805	-8,962
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	-12,574
Others	0	-745	-1,259	0	0
Cash flow from financing	11,458	363,743	400,406	13,744	-20,127
Net cash flows	17,244	138,573	-128,141	-4,706	4,277
Cash, start of the year	1,928	19,172	157,745	29,604	24,898
Cash, end of the year	19,172	157,745	29,604	24,898	29,175
FFO 1	50	-3,768	9,075	20,956	24,769
FFOPS 1 (€)	n.m.	-0.04	0.08	0.20	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	23 July 2019	€3.79	Buy	€5.90
3	23 July 2019	€3.79	Buy	€5.90
4	14 August 2019	€3.62	Buy	€5.90
5	26 August 2019	€3.71	Buy	€5.90
6	Today	€4.23	Buy	€6.00

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

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.

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

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