

ISARIA Wohnbau AG

Germany / Real estate
 Frankfurt
 Bloomberg: IWB GR
 ISIN: DE000A1E8H38

Q1/16 Results

RATING
BUY

PRICE TARGET
€5.70

Return Potential 71.8%
 Risk Rating High

SLOW Q1 IN LINE; FOCUS ON STRONG PICK UP IN H2/16

First quarter results were largely in line with our forecasts. As expected, there was little handover activity in the first three months aside from the residual units leftover from 2015. Thus, revenues amounted to €4.8m in Q1/16 compared to €14.8m in the prior year. The company also announced the decision to payback the investors of the ProReal Deutschland Fonds 2 at the end of June 2016. This will result in future savings of €2.1m in interest expense. Management stick to full year guidance of revenues approaching €100m with net income in the mid single digit million range. We reiterate our Buy rating and €5.70 price target.

Slow start to the year was expected Revenues dipped to €4.8m in the first quarter. This was well below Q1/15 at €14.8 but in line with our forecast of €4.9m. Although weather was favourable for construction in Q1, there was little construction backlog to work off from the end of 2015. Thus, handovers for the three months were low. We expect the bulk of handovers from the next major construction phases to take place in H2/16. Due to the slide in revenues gross profit fell to €1.3m in Q1/16 vs €6.1 in Q1/15. Gross margin declined on the lower sales volume and the margin spread of completed projects to 27% (Q1/15: 42%; 2015: 36%). We expect revenues to be very slow Q2/16 with few handovers slated for the quarter before a sharp pick up in H2/16 propelling IWB towards its full year targets.

Most expensive financing instrument comes off the books Management also took steps in the first three months to reduce its financing overhead and financial expenses. In January IWB the company replaced its last external mezzanine financing of €10m removing its most expensive financial instrument. Now IWB plans to payback €25m to investors of One Group's ProReal Deutschland Fonds 2 at the end of June 2016. However, we believe up to 50% of Fonds 2 investors will roll into Fonds 4, which will allow IWB to maintain financial flexibility. The decision resulted in a non-cash present value adjustment of the fund liabilities for €1.7m but will save IWB some €2.1m in future financing costs over the next 12 months. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	34.58	156.59	87.64	96.13	158.76	237.08
Y-o-y growth	n.a.	352.9%	-44.0%	9.7%	65.1%	49.3%
EBIT (€m)	2.97	21.64	27.77	20.28	35.71	61.45
EBIT margin	8.6%	13.8%	31.7%	21.1%	22.5%	25.9%
Net income (€m)	1.05	9.25	7.81	3.16	12.12	27.05
EPS (diluted) (€)	0.05	0.39	0.33	0.13	0.51	1.14
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.58	-34.57	28.81	-44.34	-18.05	-65.33
Net gearing	662.2%	226.8%	566.5%	691.6%	589.7%	493.2%
Liquid assets (€m)	0.00	42.09	32.30	18.49	24.98	28.66

RISKS

The main risks include: intensified competition, concentration on the greater Munich region, possible warranty issues, dependence on public permitting, or the loss of key employees.

COMPANY PROFILE

ISARIA Wohnbau (IWB) ranks among the largest developers of residential real estate in Munich. Since 2014 the company has also been developing residential projects in Hamburg. Operations include the segments New Construction of residential properties and Revitalisation of existing properties. IWB was founded in 1994.

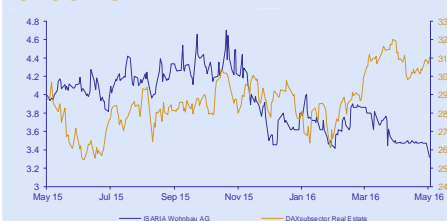
MARKET DATA

As of 16 May 2016

Closing Price	€ 3.32
Shares outstanding	23.76m
Market Capitalisation	€ 78.83m
52-week Range	€ 3.32 / 4.70
Avg. Volume (12 Months)	4,866

Multiples	2016E	2017E	2018E
P/E	25.0	6.5	2.9
EV/Sales	2.6	1.6	1.1
EV/EBIT	12.5	7.1	4.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2016

Liquid Assets	€ 19.47m
Current Assets	€ 211.70m
Intangible Assets	€ 7.07m
Total Assets	€ 283.50m
Current Liabilities	€ 144.40m
Shareholders' Equity	€ 24.23m

SHAREHOLDERS

aeris Capital S.A.	7.8%
HPI	10.1%
Captree GmbH	8.8%
Others	10.5%
Free Float	62.8%



The lower gross profit meant that IWB was unable to fully cover its operating costs (OpEX) and financial expenses for the period. However, the company did realise OpEx savings in the amount of €0.7m through active cost management measures. The primary savings occurred with other operating expenses, which included lower legal and advisory costs, lower guarantee and follow up costs associated with the properties, plus reduced commissions and advertising expenses. EBIT for the first three months was thus negative at €1.2m.

Figure 1: First quarter results vs estimates

in € '000	Q1/16	Q1/16E	Delta	Q1/15	Delta
Revenues	4,812	4,950	-2.8%	14,499	-66.8%
Gross profit	1,295	1,335	-3.0%	6,093	-78.7%
Margin	26.9%	27.0%	-	42.0%	-
EBIT	-1,225	-1,185	-	4,227	-
Margin	-25.5%	-23.9%	-	29.2%	-
Net income	-6,404	-4,660	-	215	-
Margin	-133.1%	-94.1%	-	1.5%	-
EPS (in €)	-0.27	-0.20	-	0.01	-

Source: First Berlin Equity Research; Company

The negative financial result for Q1 increased 29% Y/Y to €-5.2m owing to higher financial expenses of €-5.2m (Q1/15: €-4.1), which included the aforementioned one-off effect from the present value adjustment of fund liabilities totalling €-1.7m. Stripped of this effect, financial expenses would have declined some 13% Y/Y. Removal of the €10m mezzanine financing makes sense, given the outdated terms in today's low interest rate environment.

Operating cash outflows negative Cash flow from operating activities totalled €-16.4m, due primarily to the negative pre-tax earnings result and the increase in properties held for sale (€33.0m) plus the financial result (€15.4m) and the decrease in receivables and financial assets of €17.6m. Cash flow from investing activities amounted to €53k, while cash flow from financing activities amounted to €6.1m. The inflow stems from the net draw down of financial liabilities. Unrestricted cash declined to €6.7m (Q4/15: €17.1m), while the balance sheet cash and cash equivalents position fell to €19.5m compared to €32m at the end of 2014. Equity declined to €24.6m, due to the negative earnings result and corresponded to an equity ratio of 8.7% vs 11.1% at the end of 2015.

Maintain Buy rating and €5.70 price target Despite the slow start to the year, project development activities remain on track. IWB broke ground on the *Tower* project in Hamburg in Q1, while other projects in both Hamburg and Munich are about to kick off. Management reiterated guidance of revenues approaching €100m in 2015 with net income in the mid single digit million range. Moreover, IWB plans to boost its pipeline to reach a sales level of €300m within the five-year period. We expect Q2/16 to be quiet in terms of handovers and sales before activity from the major construction phases picks up in H2/16. We stick to our 2016 forecast of €96m in sales from property units.



VALUATION MODEL

All figures in EUR '000	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	96,133	158,760	237,085	314,731	322,642	324,000	350,495	366,911
NOPLAT	13,592	24,384	42,127	42,542	35,399	47,386	54,130	56,851
+ depreciation & amortisation	1,419	1,357	579	732	768	804	796	823
Net operating cash flow	15,011	23,274	40,853	52,044	51,946	51,553	48,348	45,532
- total investments (CAPEX and WC)	-69,921	-57,639	-120,241	-4,141	-12,809	-14,017	-13,123	-12,563
Capital expenditures	-135	-191	-285	-378	-387	-292	-315	-330
Working capital	-69,786	-57,449	-119,957	-3,764	-12,422	-13,726	-12,807	-12,232
Free cash flows (FCF)	-54,910	-31,898	-77,535	39,133	23,358	34,173	41,803	45,111
PV of FCF's	-52,148	-27,882	-62,378	28,977	15,919	21,435	24,133	23,970

All figures in thousands	
PV of FCFs in explicit period	68,675
PV of FCFs in terminal period	240,108
Enterprise value (EV)	308,784
+ Net cash / - net debt (pro-forma)	-173,557
Shareholder value	135,227
Fair value per share in EUR	5.69

WACC	8.7%	Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	17%	7.2%	8.34	9.29	10.40	11.71	13.27	15.17	17.53
Pre-tax cost of debt	7%	7.7%	6.62	7.41	8.31	9.36	10.60	12.08	13.88
Tax rate	30%	8.2%	5.12	5.78	6.52	7.38	8.38	9.55	10.96
After-tax cost of debt	5%	8.7%	3.81	4.36	4.98	5.69	6.50	7.45	8.56
Share of equity capital	30%	9.2%	2.66	3.12	3.64	4.23	4.90	5.67	6.57
Share of debt capital	70%	9.7%	1.64	2.03	2.47	2.96	3.52	4.16	4.89
Fair value per share in EUR	5.69	10.2%	0.72	1.06	1.43	1.85	2.32	2.85	3.45

* our model runs through 2028; we show an abbreviated version for formatting issues



INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
Revenue						
Sale of property units	34,577	156,594	87,640	96,133	158,760	237,085
Property leasing & other services	3,129	3,629	4,530	1,574	1,002	1,103
Change in inventories of properties held for sale with finished or unfinished buildings	4,694	10,105	30,046	68,882	53,995	90,771
Total output	42,400	170,328	122,216	166,589	213,758	328,958
Cost of materials	29,424	127,635	89,147	130,516	156,524	240,047
Gross profit	12,976	42,693	33,069	36,073	57,233	88,912
Personnel expenses	3,005	6,604	6,644	6,777	6,912	7,051
Depreciation, amortisation, impairment charges	458	1,419	1,378	1,419	1,357	579
Fair-value adj. investment properties	0	-1,508	11,022	864	877	1,266
Other operating income	3,543	1,697	4,335	481	159	237
Other operating expenses	10,086	13,216	12,638	8,940	14,288	21,338
EBIT	2,970	21,643	27,766	20,282	35,712	61,447
Financial result	-10,402	-10,904	-15,362	-15,923	-19,080	-23,851
EBT	-7,432	10,739	12,404	4,359	16,632	37,595
Income tax	8,516	-1,510	-4,274	-1,177	-4,491	-10,527
Minority interests	-38	23	-318	-20	-20	-20
Net income	1,046	9,252	7,812	3,162	12,121	27,049
Diluted EPS	0.05	0.39	0.33	0.13	0.51	1.14
EBITDA	3,428	23,062	29,144	21,701	37,069	62,026
Ratios						
Gross margin	37.5%	27.3%	37.7%	37.5%	36.1%	37.5%
EBIT margin	8.6%	13.8%	31.7%	21.1%	22.5%	25.9%
EBITDA margin	9.9%	14.7%	33.3%	22.6%	23.3%	26.2%
Net margin	3.0%	5.9%	8.9%	3.3%	7.6%	11.4%
Tax rate	-114.6%	14.1%	34.5%	27.0%	27.0%	28.0%
Expenses as % of revenues						
Personnel expenses	8.7%	4.2%	7.6%	7.0%	4.4%	3.0%
Other operating expenses	29.2%	8.4%	11.0%	9.3%	9.0%	9.0%
Y-Y Growth						
Revenues	-56.4%	352.9%	-44.0%	9.7%	65.1%	49.3%
Operating income	-76.4%	628.7%	28.3%	-27.0%	76.1%	72.1%
Net income/loss	-18.1%	784.5%	-15.6%	-59.5%	283.3%	123.2%



BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
Assets						
Current assets, total	185,123	262,327	207,833	263,797	326,059	425,731
Cash and cash equivalents	32,303	42,090	32,011	18,491	24,976	28,661
Accounts receivables from the sale of property	4,316	59,948	6,207	6,809	11,244	16,791
Properties held for sale and other inventories	126,334	136,439	142,495	211,377	265,372	356,143
Other accounts receivables	22,170	23,850	27,120	27,120	24,467	24,136
Non-current assets, total	42,115	38,725	71,340	75,959	71,436	94,458
PP&E	393	328	687	582	530	543
Goodwill and intangible assets	10,003	8,555	7,362	6,446	5,623	5,612
Investment properties	14,699	13,828	48,165	53,766	54,351	80,320
Other assets	17,020	16,014	15,126	15,165	10,932	7,983
Total assets	227,238	301,052	279,173	339,756	397,496	520,189
Shareholders' equity and debt						
Current liabilities, total	146,636	161,941	116,890	96,658	218,956	235,714
Short-term debt	70,712	78,190	82,671	51,702	171,940	185,861
Accounts payable	15,127	28,445	7,043	12,341	13,908	16,238
Current provisions	2,142	3,892	8,101	8,344	8,594	8,852
Liabilitie from payments made on account	46,988	39,171	12,072	12,193	12,315	12,438
Other liabilities	11,667	12,243	7,003	12,078	12,200	12,326
long-term liabilities, total	66,996	115,762	131,328	208,961	132,261	211,128
Long-term debt	63,067	111,416	122,897	200,530	123,830	202,697
Other liabilities	3,929	4,346	8,431	8,431	8,431	8,431
Minority interests	-59	-3	320	340	360	380
Shareholders' equity and debt	13,665	23,352	30,635	33,797	45,918	72,967
Total consolidated equity and debt	227,238	301,052	279,173	339,756	397,496	520,189
Ratios						
Current ratio (x)	1.26	1.62	1.78	2.73	1.49	1.81
Quick ratio (x)	0.40	0.78	0.56	0.54	0.28	0.30
Financial Leverage	662%	227%	567%	692%	590%	493%
Book value per share (€)	0.66	0.98	1.29	1.42	1.93	3.07
Net debt	90,493	52,963	173,557	233,741	270,794	359,897
Equity ratio	6.0%	7.8%	11.0%	9.9%	11.6%	14.0%
Return on Equity (ROE)	7.7%	39.6%	25.5%	9.4%	26.4%	37.1%



CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
EBT	-7,433	10,739	12,404	4,359	16,632	37,595
Depreciation, amortisation, impairment charges	458	1,418	1,378	1,419	1,357	579
Financial result	10,402	10,904	15,362	15,923	19,080	23,851
EBITDA	3,427	23,061	29,144	21,701	37,069	62,026
Investments in Working Capital	1,361	-59,451	5,827	-64,185	-56,864	-93,988
Other (provisions, interest, etc.)	-3,383	2,103	5,970	318	7,299	-21,293
Income taxes	-726	-1,672	-561	-1,177	-4,491	-10,527
Operating cash flow	679	-34,451	29,358	-44,208	-17,864	-65,047
Acquisition of PP&E	-83	-96	-519	-96	-159	-237
Acquisition of intangible assets	-18	-19	-24	-38	-32	-47
Other cash flows from investing	2,963	177	1,500	182	181	180
Cash flow from investing	2,862	62	957	47	-9	-104
Net cash flow from debt financing	6,098	52,252	-25,115	46,664	43,538	92,788
Cash flow from financing	-2,910	38,999	-30,198	30,641	24,358	68,836
Net cash flows	631	4,610	117	-13,520	6,485	3,685
Cash, start of the year	11,762	12,393	17,003	17,120	3,600	10,085
Cash, end of the year*	12,393	17,003	17,120	3,600	10,085	13,770
Free cash flow	578	-34,566	28,815	-44,342	-18,054	-65,332
EBITDA per share	0.17	1.03	0.91	1.05	1.96	2.53
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA per share	-74.6%	526.2%	-12.3%	15.4%	87.0%	29.5%

*Freely accessible liquid funds

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	1 July 2013	€2.73	Buy	€4.40
2...8	↓	↓	↓	↓
9	18 August 2015	€4.22	Buy	€6.00
10	17 November 2015	€4.20	Buy	€6.00
11	31 March 2016	€3.67	Buy	€5.70
12	Today	€3.32	Buy	€5.70

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

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

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BUY: An expected favourable price trend of more than 25% percent.

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

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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

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

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