

WCM Beteiligungs- und Grundbesitz-AG

Germany / Financial Services
 Frankfurt Stock Exchange
 Bloomberg: WCMK GR
 ISIN: DE000A1X3X33

2015 Results

RATING
PRICE TARGET **BUY**
€3.90
 Return Potential 27.5%
 Risk Rating High

FIRST FULL YEAR YIELDS STRONG RESULTS

WCM took significant steps in 2015 towards achieving its primary strategic goal of acquiring and developing a property portfolio of €1 billion in commercial assets. The company grew its portfolio to a market value of €506m. Full year results featured strong rental income and profitability with net income reaching €58m. Earnings translated into strong Funds from Operations (FFO) of €7.9m. Management guide for FFO of €18m-€21m in 2016. We have revised our estimates and EPRA NAV model and now see fair value at €3.90 per share (previously: €3.60). Our rating remains Buy.

Growth strategy pays off with attractive rental income Having relaunched operations at the end of 2014, full year rental income totalled €10.5m (2014: €0m; FBe: €12m). The Office segment generated €4.7m of rental income followed by Retail with €3.9m and Other with €1.9m. Top line growth was driven by the acquisition of properties in the retail and office segments—the two segments WCM will focus on going forward. The investment property portfolio grew strongly in H2/15 (see figure 1 overleaf) and reached a total of 49 properties at year end (2014: one property) with a value of €501.5m (2014: €17.3m), excluding properties held for sale.

Earnings receive a boost from significant uplift in property valuations Net income (NI) reached €58m for the year (2014: €0m) and thus significantly exceeded management's target of a slightly positive bottom line. The result was buoyed by an exceptionally strong result from the adjustments to fair value of its property portfolio totalling some €55m. This gain was driven chiefly by increases in rent and occupancy metrics translating into increased property valuations conducted by external assessors. We consider adjusted EBITDA (stripped of revaluation and one-off gains) a more relevant KPI to measure operational success. For the year, WCM generated adj. EBITDA of €10.7m, which was just above our projection of €10.2m. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016E	2017E	2018E	2019E
Rental income (€m)	0.00	10.45	34.40	40.64	48.11	53.65
Y/Y growth	n.a.	n.a.	229.3%	18.2%	18.4%	11.5%
Adj. EBITDA (€m)	-0.67	10.73	25.72	31.34	38.12	43.64
Net income (€m)	1.2	57.7	60.9	63.2	76.1	76.3
EPS (€)	0.08	0.72	0.45	0.43	0.50	0.48
EPRA NAV (€m)	31.81	290.61	384.73	465.52	552.58	628.27
DPS (€)	0.00	0.00	0.08	0.09	0.10	0.11
FFO (€m)	0.00	7.93	19.68	24.40	30.12	34.65
Net gearing	-36.4%	96.8%	77.0%	72.8%	72.3%	67.3%
Liquid assets (€m)	19.64	11.31	29.93	30.02	36.30	49.99

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavourable macroeconomic developments, and the departure of key personnel.

COMPANY PROFILE

WCM Beteiligungs- und Grundbesitz-AG is a real estate company focused on the acquisition and management of commercial properties, particularly offices and retail properties located in Germany's major commercial districts.

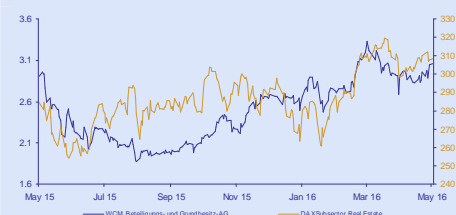
MARKET DATA

As of 23 May 2016

Closing Price	€ 3.00
Shares outstanding	120.77m
Market Capitalisation	€ 369.32m
52-week Range	€ 1.87 / 3.33
Avg. Volume (12 Months)	513,632

Multiples	2015	2016E	2017E
P/E	4.3	6.8	7.1
P/EPRA NAV	0.8	1.0	0.9
FFO I Yield	3.4%	5.0%	5.6%
Div. Yield	0.0%	2.5%	2.8%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2015

Liquid Assets	€ 11.14m
Current Assets	€ 30.45m
EPRA NAV	€ 290.60m
Total Assets	€ 550.92m
Current Liabilities	€ 88.88m
Total Equity	€ 269.58m

SHAREHOLDERS

Karl P. Ehlerding	5.4%
John F. Ehlerding	5.4%
Stavros Efremidis	1.9%
Frank Rosean	0.4%
Free Float	86.9%

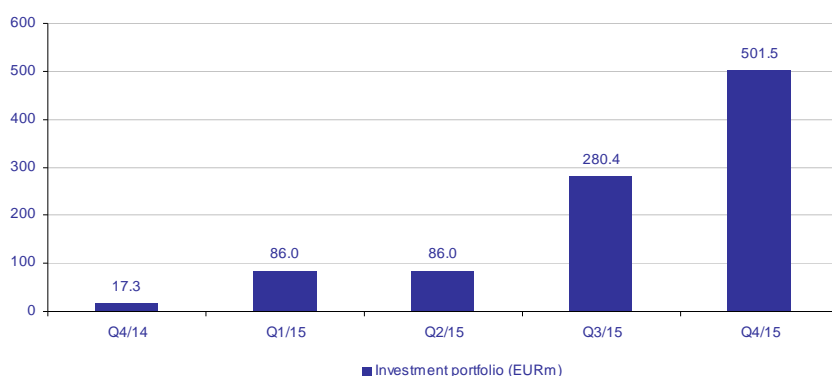
**Figure 1: Key results vs forecasts**

in €'000	Q4 2015	Q4 2015E	% delta	FY 2015	FY 2015E	% delta
Rental income	4,446	6,015	-26.1%	10,445	12,014	-13.1%
Adjusted EBITDA	5,504	4,989	10.3%	10,727	10,212	5.0%
Margin (%)	123.8%	82.9%	49.3%	102.7%	85.0%	20.8%
FFO	2,732	1,133	141.1%	7,930	6,331	25.3%

Source: First Berlin Equity Research; WCM

Operational structure drives profitability Staff expenses increased in conjunction with the full year of operations to €1.5m vs €0.2m in the prior year. We believe the current staff will be able to support the growth of the portfolio to the targeted €1bn and have modelled only minor increases. Other operating expenses likewise climbed significantly to €6.7m (2014: €1.5m) and include transaction expenses of €1.7m coupled with property acquisitions. The financial expense rose to €2.2m with the increase in debt load to fund growth, while the positive tax result of €0.9m stems from capitalised deferred tax of €24.9m offset by deferred tax liabilities of €23.2m.

Positive results built upon several key milestones WCM aims to build a commercial real estate portfolio with over €1bn in assets. The company is off to a strong start having acquired 49 properties by the end of 2015. The company exited the year with €506m in commercial properties (including assets held for sale) compared to €17m at the close of 2014 shortly after the operational relaunch. New properties include assets located in major German hubs: Berlin, Frankfurt, Rhine-Main and Dresden; all fulfilling the criteria of high quality commercial properties in good locations that offer attractive yields and low vacancy rates. This strategy was highlighted by the July 2015 purchase of 14 office properties in Frankfurt and Dresden for some €107m.

Figure 2: Quarterly investment portfolio development

Source: First Berlin Equity Research; WCM

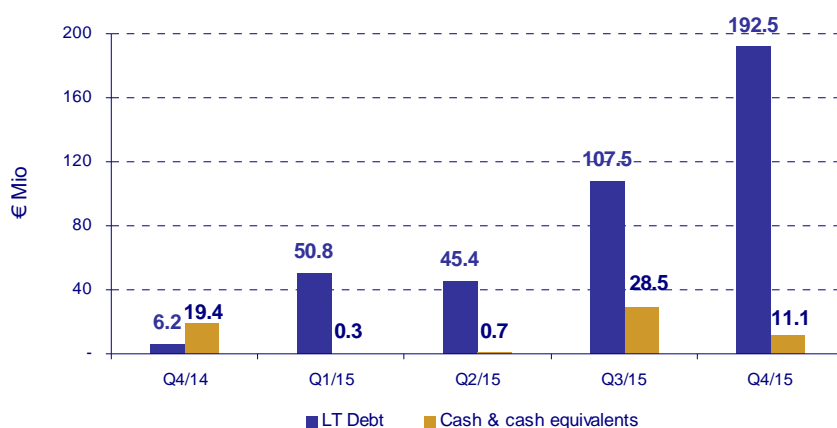
Management reported a rental income run rate of €31.5m for the assets at the end of the reporting period, which corresponds to a net yield of 6.2%. The weighted average remaining lease term (WALT) was reported at 9.4 years, while the vacancy rate was stated at a low 6%, thanks to the property management activities of the company. Due to the relaunch of the company there are no comparative figures for the previous years available. However, the initial KPI's are already in line with targeted metrics of rental agreements of at least ten years with renowned retailers and a yield of 6.5%—8.0% per annum.

**Figure 3: Overview of key EPRA figures**

in €'000	2015
EPRA NAV	290,608
EPRA NAV per share (in EUR)	2.38
EPRA NNNAV	270,672
EPRA Earnings	7,577
EPRA Earnings per share (in EUR)	0.10
EPRA Net Initial Yield (EPRA NIY) in %	5.6%
EPRA "topped-up" Net Initial Yield in %	5.6%
EPRA Vacancy in %	4.8%

Source: First Berlin Equity Research; WCM

Portfolio growth was financed with a combination of equity and debt financing demonstrating the company's ability to tap the capital markets and also capitalise on the highly favourable interest rate environment. WCM raised gross proceeds of €180m from two capital increases and complimented this with another €192m in loans. Moreover, the WACD of the debt load stood at 2.1% with an average maturity of 6.1 years. This corresponds to a solid 4% spread between the net portfolio yield and financing costs.

Figure 4: Long term debt and liquidity developments

Source: First Berlin Equity Research; WCM

Finally, WCM was included in Germany's small cap index (SDAX) in December 2015. Its inclusion in this index makes WCM shares a more attractive investment for institutional investors, some of which have mandates to include shares of index members in their portfolios.

Solid balance sheet metrics to end the year The debt structure featured a Loan-to-Value (LTV) of 52.2% at the end of 2015. This is slightly above the 50% targeted by the company. WCM exited the year with cash and liquid assets of €11m with net debt of €253m. On an adjusted EBITDA basis, the interest coverage ratio was 5.2x at the end of the year. Operating cash flow amounted to €-2.5m for the year with net income offset by cash consumed by working capital. The cash outflow from investing activities totalled €-352m owing heavily to property acquisition. These outflows were then offset by cash flow from financing activities amounting to €347m leading to a change in cash of €-8.2m for 2015. WCM exited the year with cash and cash equivalents of €11.1m.

**Figure 5: Financial highlights**

in €'000	2015	2014	Delta
Cash & liquid assets	11,136	19,376	-42.5%
Investment property	501,546	17,337	2792.9%
Assets held for sale	4,185	0	-
Total equity	269,582	31,809	747.5%
EPRA NAV ¹	290,608	n.a.	-
Interest bearing debt	264,131	8,167	3134.1%
Net debt	252,995	-11,209	-2357.1%
Loan-to-Value (LTV)	52.2%	47.1%	-
Equity ratio	48.9%	72.0%	-

¹ no comparative figure

Source: First Berlin Equity Research; WCM

Strategic sales boost portfolio KPIs WCM also announced on 9 May the sale of its industrial property in Bremerhaven and has now divested four non-strategic assets with a total value of €25m. This includes the sale of the three assets announced 29 April 2016, which resulted in a pre-tax profit of €1.6m compared to the book value. The Bremerhaven price was at book value as of 31 December 2015 and includes the remaining debt. As a result of the sale, the vacancy rate was compressed to 3.9% (Q4/15: 6%), while the WALT increased to 9.8 years (previously: 9.4).

Figure 6: Changes to our forecasts

in €'000	2016E			2017E		
	old	new	% delta	old	new	% delta
Rental income	48,289	34,395	-28.8%	69,543	40,643	-41.6%
Adjusted EBITDA	41,770	25,722	-38.4%	61,893	31,342	-49.4%
Margin (%)	86.5%	74.8%	-	89.0%	77.1%	-
FFO	30,575	19,681	-35.6%	46,254	24,397	-47.3%

Source: First Berlin Equity Research

Look for strong growth to continue this year Having disposed of its non-strategic assets, the company plans to focus on office and retail spaces going forward to drive NAV and FFO accretion. Thus far, WCM has contractually secured the purchase of properties worth some €50m to boost its portfolio, but we believe investments could top €100m for the year. We thus expect WCM to end 2016 with a portfolio of at least €640m.

Our previous estimates assumed a more aggressive acquisition rate, but we have pushed out some planned investments into the next two years to be more conservative. WCM pursues strict investment criteria, which might slow the acquisition rate. We believe our new projections now represent the low case scenario. Our revised forecasts translate into FFO of €19.7m, which is in the middle of the guided range of €18m—€21m depending on acquisitions.

WCM has an large tax loss carry forward (TLCF) on its books split into some €282m of corporate tax and another €260m in trade tax. In our view, this clearly distinguishes WCM from its real estate peers for investors, given that investors benefit from this in terms of reduced capital gains tax on dividend payouts. Management also confirmed plans to payout a dividend in 2017 corresponding to 50% of FFO.

We have rolled our model forward and now see fair value for the share at €3.90 (previously: €3.60) corresponding to a Buy rating. Although we have cut our estimates, the return on NAV remains strong allowing the company to create substantial value during the forecast period. According to our estimates EPRA NAV per share should expand at a CAGR of 15% over the period 2016-2018.



EPRA NAV VALUATION

In €'000	2016E	2017E	2018E	2019E
Shareholder's equity	365,645	439,938	519,271	587,638
Consolidated NAV	376,303	453,125	535,501	606,918
NAV per share	2.92	3.22	3.64	4.02
Deferred taxes	8,428	12,392	17,083	21,352
Revaluation of trading properties	-	-	-	-
EPRA NAV	384,732	465,517	552,584	628,270
EPRA NAV per share	2.81	3.22	3.69	4.12
FFO	19,681	24,397	30,121	34,645
Revaluation results	37,784	39,635	46,915	42,685
New Equity	43,552	22,272	17,575	9,708
Total return	101,017	86,303	94,611	87,039

In €'000	2016	2017	2018	2019
EPRA NAV	384,732	465,517	552,584	628,270
Return on NAV	35%	22%	20%	16%
Cost of equity	7.0%	7.0%	7.0%	7.0%
Spread	28%	15%	13%	9%

In €'000	2016	2017	2018	2019
WACC	6.0%	6.0%	6.0%	6.0%
Value creation	106,846	71,890	73,687	55,051
NPV	103,168	65,506	63,361	47,329
Dividends paid	-	9,841	12,198	15,060
Present value of dividends paid	-	8,967	10,489	12,948

Fair value calculation	
PV of total value created	279,364
NAV (2015)	269,582
Adjustments	0
Equity value	548,946
PV of dividends	32,404
Fair value	581,350
Number of shares (000's, fully diluted)	151,191
Fair value per share (€)	3.90



INCOME STATEMENT

All figures in EUR '000	2014	2015	2016E	2017E	2018E
Rental income	0	10,445	34,395	40,643	48,109
Property OpEx	0	-885	-2,924	-3,455	-4,089
Net rental income	0	9,560	31,472	37,189	44,020
Disposals	0	0	4,100	0	0
Capital gains, property revaluations & gains from disposals	0	54,904	37,784	39,635	46,915
Other operating income	996	3,012	1,000	1,000	1,000
Personnel expenses	-180	-1,530	-1,789	-2,032	-2,165
Other operating expenses	-1,489	-6,715	-4,961	-4,814	-4,737
Depreciation & amortisation	0	-359	-688	-813	-962
Operating income (EBIT)	-673	58,872	66,918	70,164	84,071
Net financial result	-209	-2,076	-6,041	-6,946	-7,997
Other financial expenses	1	0	0	0	0
Pre-tax income (EBT)	-881	56,796	60,877	63,218	76,074
Income taxes	2,087	879	0	0	0
Net income / loss	1,206	57,675	60,877	63,218	76,074
Minority interests	0	3,383	2,435	2,529	3,043
Net income after minorities	1,206	54,292	58,442	60,690	73,031
Basic EPS (in €)	0.08	0.72	0.45	0.43	0.50
Diluted EPS (in €)	0.08	0.72	0.45	0.43	0.50
Adjusted EBITDA	-673	10,727	25,722	31,342	38,118
Ratios					
Adjusted EBITDA margin	n.m.	102.7%	74.8%	77.1%	79.2%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Expenses as % of revenues					
Property OpEx	n.m.	8.5%	8.5%	8.5%	8.5%
Personnel expenses	n.m.	14.6%	5.2%	5.0%	4.5%
Y-Y Growth					
Revenues	n.m.	n.m.	229.3%	18.2%	18.4%
Operating income	n.m.	n.m.	13.7%	4.9%	19.8%
Adjusted EBITDA	n.m.	n.m.	139.8%	21.9%	21.6%
Net income/ loss	n.m.	4682.3%	5.6%	3.8%	20.3%



BALANCE SHEET

All figures in EUR '000	2014	2015	2016E	2017E	2018E
Assets					
Current assets, total	23,311	30,446	46,459	46,889	53,576
Cash and cash equivalents	19,376	11,136	29,753	29,835	36,107
Property held for sale	0	4,185	0	0	0
Trade receivables	0	309	1,885	2,227	2,636
Other current assets	3,935	14,816	14,821	14,827	14,832
Non-current assets, total	20,578	520,478	664,077	785,985	930,260
Property, plant & equipment	483	4,807	4,903	5,001	5,101
Investment property	17,337	501,546	641,207	758,988	898,405
Other LT assets	2,758	14,125	17,967	21,996	26,754
Total assets	43,889	550,924	710,536	832,874	983,836
Shareholders' equity & debt					
Current liabilities, total	5,879	88,877	76,863	75,435	88,453
Short-term debt	1,966	76,316	62,235	58,384	68,560
Trade payables	3,628	10,733	12,343	14,194	16,324
Provisions & current liabilities	285	1,828	2,285	2,856	3,570
Long-term liabilities, total	6,201	192,465	257,369	304,314	359,881
Long-term debt	6,201	187,815	248,941	291,922	342,798
Deferred tax liabilities	0	4,650	8,428	12,392	17,083
Minority interests	1,050	8,223	10,658	13,187	16,230
Shareholders' equity	30,759	261,359	365,645	439,938	519,271
Loss carryforward / retained earnings	-16,799	62,420	120,862	171,711	232,543
Total consolidated equity and debt	43,889	550,924	710,536	832,874	983,836
Ratios					
Current ratio (x)	3.97	0.34	0.60	0.62	0.61
Equity ratio	72.5%	48.9%	53.0%	54.4%	54.4%
Financial leverage	-36.4%	96.8%	77.0%	72.8%	72.3%
Book value per share (€)	2.11	3.45	2.82	3.11	3.52
Net debt	-11,209	252,995	281,423	320,471	375,250
Return on equity (ROE)	3.9%	22.1%	16.6%	14.4%	14.7%
Loan-to-value (LTV)	n.a.	52.2%	48.5%	46.2%	45.8%



CASH FLOW STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
Net income	-514	1,206	57,675	60,877	63,218	76,074
Capital gains, property revaluations & other	0	0	-54,904	-41,884	-39,635	-46,915
Depreciation & amortisation	0	0	359	688	813	962
Net finance expenses	0	0	2,076	6,041	6,946	7,997
Tax result	0	0	722	0	0	0
Operating cash flow	-514	1,206	5,928	25,722	31,342	38,118
Proceeds from disposal of trading properties	0	0	0	8,285	0	0
Changes in working capital	-1,418	2,348	-11,850	-35	1,439	1,648
Provisions and other liabilities	8	-1,868	3,324	457	571	714
Tax paid	0	0	12	0	0	0
Net operating cash flow	-1,924	1,686	-2,586	34,429	33,352	40,481
CapEx/ intangibles	0	0	-4,748	-784	-911	-1,062
Outflows for investment property	0	-3,086	-347,658	-101,877	-78,147	-92,502
Inflows from disposal of PP&E	0	319	66	0	0	0
Cash flow from investing	0	-2,767	-352,340	-102,661	-79,058	-93,564
Debt financing, net	1,700	2,860	176,133	47,045	39,130	61,051
Equity financing, net	0	17,593	172,765	45,844	23,444	18,500
Interest paid	0	0	-2,212	-6,041	-6,946	-7,997
Dividends paid	0	0	0	0	-9,841	-12,198
Cash flow from financing	1,700	20,453	346,686	86,849	45,788	59,356
Net cash flows	-224	19,372	-8,240	18,617	82	6,272
Cash, start of the year	228	4	19,376	11,136	29,753	29,835
Cash, end of the year	4	19,376	11,136	29,753	29,835	36,108
Adjusted EBITDA/share (in €)	n.m.	n.m.	0.14	0.20	0.22	0.26
FFO	-524	1,205	7,930	19,681	24,397	30,121
FFO/share	-0.04	0.08	0.10	0.15	0.17	0.20
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	-3.1%	21.4%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	n.m.	39.8%	11.9%	16.6%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	8 December 2015	€2.59	Buy	€3.60
2	Today	€3.06	Buy	€3.90

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PRICE TARGET DATES

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

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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:

STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

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%.

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.

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Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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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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