

# WCM Beteiligungs- und Grundbesitz-AG

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

Q1/16 Results

**RATING**  
**BUY**

**PRICE TARGET**  
**€3.90**

Return Potential 25.6%  
 Risk Rating High

## STRONG QUARTER TO KICK OFF 2016

First quarter results increased substantially led by rental income growth and Funds from Operations (FFO I). The portfolio grew another 5% to a market value of €531m in the first three months. Rental income of €7.7m (Q1/15: €0.7m) continued the momentum of 2015 improving some 28% Q/Q (Q4/15: €6.1m). Revenues translated strongly into FFO I of €4.4m (Q1/15: €-0.2m). Results were in line with our estimates, and we believe the company is well on track to meet our full year targets. We maintain our Buy rating and €3.90 price target.

**Rental income driven by portfolio growth** Rental income of €7.7m (Q1/15: €0.7m; FBe: €7.9m) was in line with our forecasts and continued the strong momentum from 2015. Growth was driven by the performance of the existing portfolio as well as the 5% expansion of the commercial assets. Thanks to the expansion, the annualised rental income run rate increased to €33.3m compared to €31.5m at year-end 2015. The weighted average remaining lease term (WALT) also edged higher to 9.5 years (previously: 9.4).

**Top line spurred attractive earnings growth** Operating income totalled €5.1m for the period (Q1/15:€1.0m). Operating expenses contain one-off commissions of €1.7m (Q1/15: €2.9m). We refer to adjusted EBITDA, which excludes property revaluation gains and disposals, to measure profitability. For the quarter, this KPI climbed to €4.3m vs €1.1m in the prior year period. Net income of €1.7m contributed to the rise in EPRA NAV to €294m or €2.41 per share (Q4/15 €291m; €2.38)

**New acquisitions and strategic disposals** WCM closed three new deals in Q1/16 to boost the overall portfolio volume to €530m (figure 2 overleaf). The company also successfully disposed of non-strategic assets contributing €0.5m in net profit for the period. Having also recently divested of the Bremerhaven industrial property in early May, we believe the portfolio now better reflects the focus on office and retail spaces. FFO I totalled €4.4m for the period equating to €0.04/share, whereas FFO II (including asset sales) totalled €4.9m. (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 31 May 2016

Closing Price	€ 3.10
Shares outstanding	120.77m
Market Capitalisation	€ 374.88m
52-week Range	€ 1.87 / 3.33
Avg. Volume (12 Months)	522,676

Multiples	2015	2016E	2017E
P/E	4.3	6.8	7.2
P/EPRA NAV	0.8	1.0	0.9
FFO I Yield	3.4	4.9	5.6
Div. Yield	0.0%	2.4%	2.8%

## STOCK OVERVIEW



## COMPANY DATA

As of 31 Mar 2016

Liquid Assets	€ 33.11m
Current Assets	€ 54.72m
EPRA NAV	€ 293.50m
Total Assets	€ 597.76m
Current Liabilities	€ 19.61m
Total Equity	€ 271.47m

## SHAREHOLDERS

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

**Table 1: Key results vs forecasts**

in €'000	Q1 2016	Q1 2016E	% delta	Q1 2015	% delta
Rental income	7,674	7,910	-3.0%	699	1098%
Adjusted EBITDA	4,282	4,508	-5.0%	372	1151%
Margin (%)	55.8%	57.0%	-	53.2%	-
FFO	4,381	4,524	-3.2%	-163	-

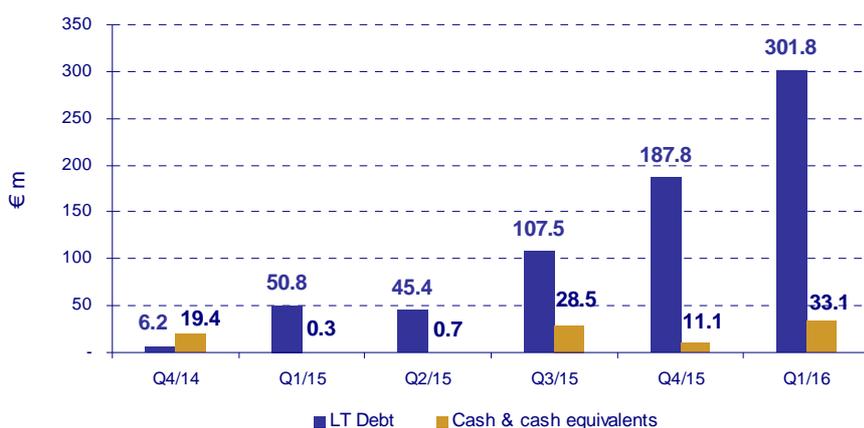
Source: First Berlin Equity Research

**Table 2: Financial highlights**

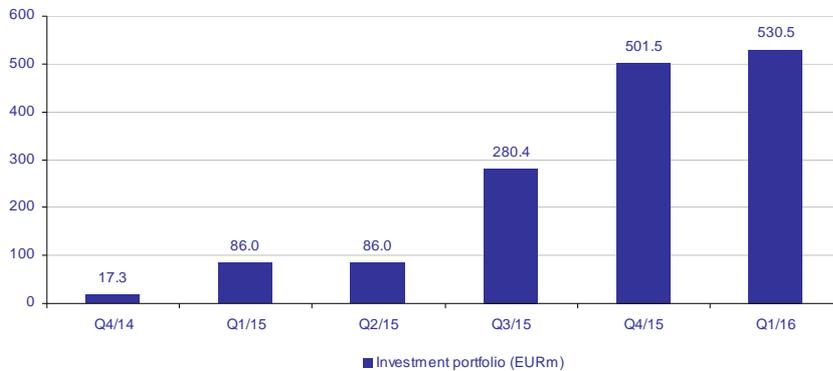
in €'000	Q1/16	Q4/15	Delta
Cash & liquid assets	33,113	11,136	197.4%
Investment property	525,701	501,546	4.8%
Assets held for sale	4,766	4,185	13.9%
Total equity	271,466	269,582	0.7%
EPRA NAV <sup>1</sup>	293,541	290,608	1.0%
Interest bearing debt	309,080	264,131	17.0%
Net debt	275,967	252,995	9.1%
Loan-to-Value (LTV)	52.2%	50.0%	-
Equity ratio	45.0%	49.0%	-

Source: First Berlin Equity Research; WCM

**Balance sheet remains solid** The debt structure featured a Loan-to-Value (LTV) of 52% (Q4/15: 50%), which is slightly above the 50% threshold targeted by the company. We believe this KPI will dip to 49% by the end of the year. WCM exited the quarter with cash and liquid assets of €33m compared to €11m at the end of 2015. Net debt totalled €275m vs €253m in Q4/15. On an adjusted EBITDA basis, the interest coverage ratio was 2.4x. Operating cash flow amounted to €1.9m for the quarter thanks chiefly to the positive net income result. The cash outflow from investing activities totalled €56m owing heavily to property acquisition. This was offset by cash flow from financing activities amounting to €76m leading to a change in cash of €22m in the first quarter.

**Figure 1: Long term debt and liquidity developments**

Source: First Berlin Equity Research; WCM

**Figure 2: Quarterly investment portfolio development**

Source: First Berlin Equity Research; WCM

**Maintain Buy rating and €3.90 price target** Supported by the successful performance during the first quarter of 2016, the guidance for the running year remains unchanged. FFO for 2016 is projected to range between €18m - €21m depending on acquisitions. Given the strong first quarter performance, we stick to our forecasts of rental income above €34m with €19.7m in FFO I. Management also plan to distribute a dividend in 2017 corresponding to 50% of FFO.



## VALUATION MODEL

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
<b>EPRA NAV per share</b>	<b>2.81</b>	<b>3.22</b>	<b>3.69</b>	<b>4.12</b>
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
<b>Total return</b>	<b>101,017</b>	<b>86,303</b>	<b>94,611</b>	<b>87,039</b>

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%
<b>Spread</b>	<b>28%</b>	<b>15%</b>	<b>13%</b>	<b>9%</b>

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	103,269	65,570	63,423	47,375
Dividends paid	-	9,841	12,198	15,060
Present value of dividends paid	-	8,975	10,499	12,961

Fair value calculation	
PV of total value created	279,637
NAV (2015)	269,582
Adjustments	0
Equity value	549,219
PV of dividends	32,435
Fair value	581,655
Number of shares (000's, fully diluted)	151,220
<b>Fair value per share (€)</b>	<b>3.90</b>



## INCOME STATEMENT

All figures in EUR '000	2014	2015	2016E	2017E	2018E
<b>Rental income</b>	<b>0</b>	<b>10,445</b>	<b>34,395</b>	<b>40,643</b>	<b>48,109</b>
Property OpEx	0	-885	-2,924	-3,455	-4,089
<b>Net rental income</b>	<b>0</b>	<b>9,560</b>	<b>31,472</b>	<b>37,189</b>	<b>44,020</b>
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
<b>Operating income (EBIT)</b>	<b>-673</b>	<b>58,872</b>	<b>66,918</b>	<b>70,164</b>	<b>84,071</b>
Net financial result	-209	-2,076	-6,041	-6,946	-7,997
Other financial expenses	1	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>-881</b>	<b>56,796</b>	<b>60,877</b>	<b>63,218</b>	<b>76,074</b>
Income taxes	2,087	879	0	0	0
<b>Net income / loss</b>	<b>1,206</b>	<b>57,675</b>	<b>60,877</b>	<b>63,218</b>	<b>76,074</b>
Minority interests	0	3,383	2,435	2,529	3,043
<b>Net income after minorities</b>	<b>1,206</b>	<b>54,292</b>	<b>58,442</b>	<b>60,690</b>	<b>73,031</b>
<b>Basic EPS (in €)</b>	<b>0.08</b>	<b>0.72</b>	<b>0.45</b>	<b>0.43</b>	<b>0.50</b>
<b>Diluted EPS (in €)</b>	<b>0.08</b>	<b>0.72</b>	<b>0.45</b>	<b>0.43</b>	<b>0.50</b>
<b>Adjusted EBITDA</b>	<b>-673</b>	<b>10,727</b>	<b>25,722</b>	<b>31,342</b>	<b>38,118</b>
<b>Ratios</b>					
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%
<b>Expenses as % of revenues</b>					
Property OpEx	n.m.	8.5%	8.5%	8.5%	8.5%
Personnel expenses	n.m.	14.6%	5.2%	5.0%	4.5%
<b>Y-Y Growth</b>					
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
<b>Assets</b>					
<b>Current assets, total</b>	<b>23,311</b>	<b>30,446</b>	<b>46,459</b>	<b>46,889</b>	<b>53,576</b>
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
<b>Non-current assets, total</b>	<b>20,578</b>	<b>520,478</b>	<b>664,077</b>	<b>785,985</b>	<b>930,260</b>
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
<b>Total assets</b>	<b>43,889</b>	<b>550,924</b>	<b>710,536</b>	<b>832,874</b>	<b>983,836</b>
<b>Shareholders' equity &amp; debt</b>					
<b>Current liabilities, total</b>	<b>5,879</b>	<b>88,877</b>	<b>76,863</b>	<b>75,435</b>	<b>88,453</b>
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
<b>Long-term liabilities, total</b>	<b>6,201</b>	<b>192,465</b>	<b>257,369</b>	<b>304,314</b>	<b>359,881</b>
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
<b>Shareholders' equity</b>	<b>30,759</b>	<b>261,359</b>	<b>365,645</b>	<b>439,938</b>	<b>519,271</b>
Loss carryforward / retained earnings	-16,799	62,420	120,862	171,711	232,543
<b>Total consolidated equity and debt</b>	<b>43,889</b>	<b>550,924</b>	<b>710,536</b>	<b>832,874</b>	<b>983,836</b>
<b>Ratios</b>					
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
<b>Net income</b>	<b>-514</b>	<b>1,206</b>	<b>57,675</b>	<b>60,877</b>	<b>63,218</b>	<b>76,074</b>
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
<b>Operating cash flow</b>	<b>-514</b>	<b>1,206</b>	<b>5,928</b>	<b>25,722</b>	<b>31,342</b>	<b>38,118</b>
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
<b>Net operating cash flow</b>	<b>-1,924</b>	<b>1,686</b>	<b>-2,586</b>	<b>34,429</b>	<b>33,352</b>	<b>40,481</b>
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
<b>Cash flow from investing</b>	<b>0</b>	<b>-2,767</b>	<b>-352,340</b>	<b>-102,661</b>	<b>-79,058</b>	<b>-93,564</b>
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
<b>Cash flow from financing</b>	<b>1,700</b>	<b>20,453</b>	<b>346,686</b>	<b>86,849</b>	<b>45,788</b>	<b>59,356</b>
<b>Net cash flows</b>	<b>-224</b>	<b>19,372</b>	<b>-8,240</b>	<b>18,617</b>	<b>82</b>	<b>6,272</b>
Cash, start of the year	228	4	19,376	11,136	29,753	29,835
<b>Cash, end of the year</b>	<b>4</b>	<b>19,376</b>	<b>11,136</b>	<b>29,753</b>	<b>29,835</b>	<b>36,108</b>
<b>Adjusted EBITDA/share (in €)</b>	<b>n.m.</b>	<b>n.m.</b>	<b>0.14</b>	<b>0.20</b>	<b>0.22</b>	<b>0.26</b>
<b>FFO</b>	<b>-524</b>	<b>1,205</b>	<b>7,930</b>	<b>19,681</b>	<b>24,397</b>	<b>30,121</b>
<b>FFO/share</b>	<b>-0.04</b>	<b>0.08</b>	<b>0.10</b>	<b>0.15</b>	<b>0.17</b>	<b>0.20</b>
<b>Y-Y Growth</b>						
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	24 May 2016	€3.06	Buy	€3.90
3	Today	€3.10	Buy	€3.90

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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:

**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%.

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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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