

WCM Beteiligungs- und Grundbesitz-AG

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

Q2 2016
 Results

RATING
BUY

PRICE TARGET
€3.90

Return Potential 26.5%
 Risk Rating High

PORTFOLIO CONTINUES TO EXPAND; DIVIDEND CONFIRMED FOR 2016

Second quarter results increased substantially Y/Y led by rental income and funds from operations (FFO I) growth. The portfolio expanded another 8.5% Q/Q to a market value of €576m vs €531m at the end of Q1. Rental income of €7.8m (Q2/15: €1.5m) continued to be strong, driven by portfolio growth. Rental income translated strongly into FFO I of €3.9m (Q2/15: €0.4m). Results were in line with our estimates, and we believe the company is well on track to meet our full year targets. Management also confirmed plans to pay out a dividend on the 2016 results marking the first distribution to shareholders since the company re-launch. We maintain our Buy rating and €3.90 price target.

Portfolio taking shape; rental income on track to full year target Rental income of €7.8m (Q2/15: €1.5m; FBe: €7.8m) was in line with our forecast. Growth was driven by the performance of the existing portfolio as well as the 8.5% expansion of the commercial assets. On a six month basis, rental income grew to €15.4m compared to €2.2m in the prior year period. Thanks to the portfolio expansion, the annualised rental income run rate increased to €33.7m compared to €31.5m at year-end 2015. This gives us confidence in our top line target of €34.4m. We also note the full potential of the portfolio is not reflected in the Q2 results, given that the new retail centre in Straubing was acquired late in Q2. The weighted average remaining lease term (WALT) stood at 9.4 years compared to 9.5 at the end of Q1.

Top line and valuation profits spur earnings growth Operating income totalled €14.5m in the second quarter (Q2/15: €0.7m). The figure was boosted by a strong property revaluation result totalling some €13.6m for the period. Operating expenses contained a number of non-cash exceptional costs including employee stock options, write-downs of non-property assets and exceptional financing costs for commissions associated with select acquisitions. We refer to adjusted EBITDA to measure operating profitability, which excludes property revaluation gains and disposals. Including adjustments made for exceptional items, adj. EBITDA . . . (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 I (€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 Aug 2016

Closing Price	€ 3.08
Shares Outstanding	131.96m
Market Capitalisation	€ 406.71m
52-week Range	€ 1.87 / 3.33
Avg. Volume (12 Months)	485,992

Multiples	2015	2016E	2017E
P/FFO I	29.4	20.3	17.8
P/EPRA NAV	1.3	1.1	1.0
FFO I Yield	3.4%	4.9%	5.6%
Div. Yield	0.0%	2.5%	2.8%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 37.37m
Current Assets	€ 51.57m
EPRA NAV	€ 334.94m
Total Assets	€ 659.12m
Current Liabilities	€ 21.06m
Total Equity	€ 309.61m

SHAREHOLDERS

Karl P. Ehlerding	6.1%
John F. Ehlerding	6.1%
Stavros Efremidis	2.6%
DIC OF RE 2 GmbH	24.6%
Free Float	60.6%



amounted to €5.8m in the second quarter. Net income (NI) of €11.6m in Q2 contributed to the rise in EPRA NAV to €335m or €2.54 per share (Q1/16:€294m; €2.41). On a six month basis, adjusted EBITDA (including adjustments for non-cash exceptional items) totalled €12.1m vs €0.9m in the previous year, whereas NI totalled €13.4m (H1/15: €0.8m).

Table 1: Key results vs forecasts

in €'000	Q2 2016	Q2 2016E	% delta	Q2 2015	% delta	H1 2016	H1 2015	% delta
Rental income	7,768	7,820	-0.7%	1,492	521%	15,442	2,193	604.1%
Adjusted EBITDA ¹	5,828	5,870	-0.7%	777	750%	12,144	837	1350.9%
Margin (%)	75.0%	75.1%	-	52.1%	-	78.6%	38.2%	-
FFO I	3,920	4,124	-4.9%	384	1021%	8,301	221	3656.1%

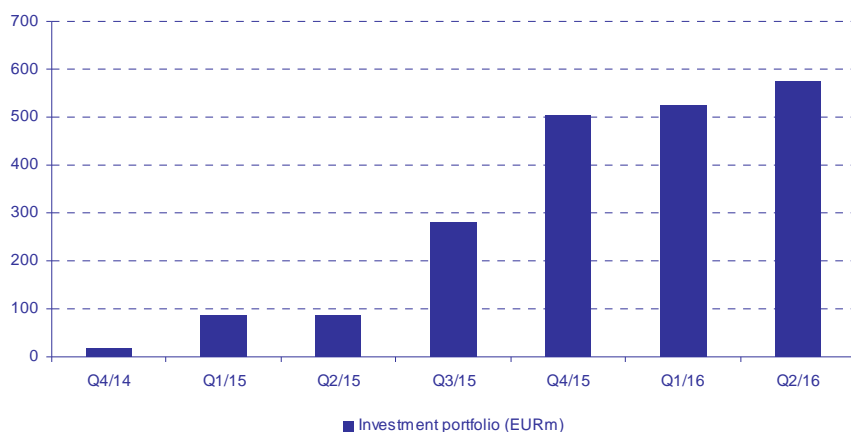
¹ includes adjustments for one-off costs traced to Mr Roseen, exceptional financing costs and one-off write downs of non-property assets

Source: First Berlin Equity Research; WCM

Optimising portfolio with strategic acquisitions and disposals WCM closed two new deals in H1/16 to boost the overall portfolio volume to €576m highlighted by the acquisition of a 94.9% share in a retail park located in Straubing, Bavaria against contribution in kind. The property contributes some €2.5m in FFO to WCM's overall portfolio. WCM also bought a DIY store in Göppingen at the end of March 2016 with the goal of keeping a balance between its Office and Retail segments. The store generates some €1.0m in FFO I for the overall portfolio.

Moreover, the company successfully disposed of three non-strategic assets with a gain of some 26% above book value in the first six months of 2016. Having also 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 €8.3m for the six month period equating to €0.07/share, whereas FFO II (including asset sales) totalled €9.1m.

Figure 1: Quarterly investment portfolio development



Source: First Berlin Equity Research; WCM

Table 2: Select financial highlights H1/16

in €'000	Q2/16	2015	Delta
Cash & liquid assets	37,372	11,136	235.6%
Investment property	575,569	505,731	13.8%
Total equity	309,605	269,582	14.8%
EPRA NAV	334,938	290,608	15.3%
Interest bearing debt	325,970	264,131	23.4%
Net debt	288,598	252,995	14.1%
Loan-to-Value (LTV)	50.1%	50.0%	-
Equity ratio	46.9%	48.9%	-

Source: First Berlin Equity Research; WCM



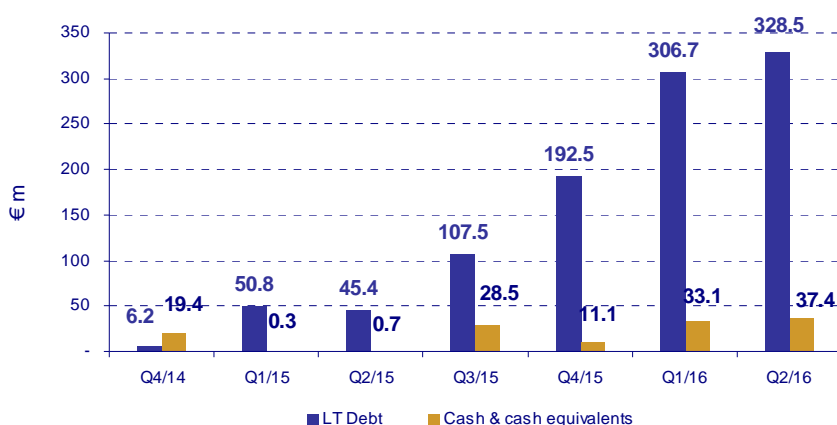
Balance sheet metrics remain stable with ample cash position The debt structure featured a Loan-to-Value (LTV) of 50% (Q1/16: 52%; Q4/15: 50%). We believe this KPI will dip to 49% by the end of the year. WCM exited the second quarter with cash and liquid assets of €37.4m compared to €33.1m at the end of Q1/16 and €11.1m at the end of 2015. Net debt totalled €289m vs €276m in Q1/16. On an adjusted EBITDA basis, the interest coverage ratio was 1.4x. Operating cash flow amounted to €6.7m in H1/16 thanks chiefly to the positive net result. The cash outflow from investing activities totalled €42m owing heavily to property acquisition. This was offset by cash flow from financing activities amounting to €61m leading to a change in cash of €11.1m in the first six months. Driven chiefly by the positive net result, EPRA NAV increased to €335m corresponding to a 15.3% increase since the end of 2015. EPRA earnings of €5.2m over the first six months correspond to some 68% of the total earned in FY 2015.

Table 3: EPRA KPIs

in €'000	H1/16	2015	Delta
EPRA NAV	334,938	290,608	15.3%
EPRA NAV per share (in EUR)	2.54	2.38	6.7%
EPRA NNNAV	288,343	270,672	6.5%
EPRA Earnings	5,160	7,577	-
EPRA Net Initial Yield (EPRA NIY)	5.3%	5.6%	-
EPRA Vacancy	4.1%	4.8%	-

Source: First Berlin Equity Research; WCM

Figure 2: Long term debt and liquidity developments



Source: First Berlin Equity Research; WCM

The debt structure continues to look healthy with a 6.1 year mean debt maturity and currently boasts a weighted average cost of debt of 2.0%—down 10 basis points since the end of 2015. The first significant refinancing requirement is not until 2019 with some €63m set to mature.

Building a balanced portfolio step by step WCM aims to build a portfolio of up to €1bn in assets over the long term. The company specialises in the acquisition of Core, Core +, and in specific cases value-add properties. WCM pursues a balanced portfolio that focuses on Retail and Office segments. We expect management to stick to this strategy, while maintaining balance sheet discipline. Management also indicated the pipeline currently contains some €200m in new office and retail assets under review and negotiation. We expect this to translate into further deals in H2 2016 and next year. The company confirmed plans to distribute a dividend to shareholders on 2016 results. We currently estimate this to be 50% of FFO I.



In addition to its attractive property holdings, our confidence in WCM is supported by solid balance sheet ratios and a balanced debt portfolio. FFO I is tracking to the guided range of €18m–€21m depending on acquisitions. We reiterate our Buy rating and €3.90 price target.

VALUATION MODEL

In €'000	2016E	2017E	2018E	2019E
Shareholders' 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	104,671	66,460	64,284	48,018
Dividends paid	-	9,841	12,198	15,060
Present value of dividends paid	-	9,097	10,642	13,137

Fair value calculation	
PV of total value created	283,433
NAV (2015)	269,582
Adjustments	0
Equity value	553,015
PV of dividends	32,876
Fair value	585,890
Number of shares (000's, fully diluted)	151,617
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	2014	2015	2016E	2017E	2018E
Net income	1,206	57,675	60,877	63,218	76,074
Capital gains, property revaluations & other	0	-54,904	-41,884	-39,635	-46,915
Depreciation & amortisation	0	359	688	813	962
Net finance expenses	0	2,076	6,041	6,946	7,997
Tax result	0	722	0	0	0
Operating cash flow	1,206	5,928	25,722	31,342	38,118
Proceeds from disposal of trading properties	0	0	8,285	0	0
Changes in working capital	2,348	-11,850	-35	1,439	1,648
Provisions and other liabilities	-1,868	3,324	457	571	714
Tax paid	0	12	0	0	0
Net operating cash flow	1,686	-2,586	34,429	33,352	40,481
CapEx/ intangibles	0	-4,748	-784	-911	-1,062
Outflows for investment property	-3,086	-347,658	-101,877	-78,147	-92,502
Inflows from disposal of PP&E	319	66	0	0	0
Cash flow from investing	-2,767	-352,340	-102,661	-79,058	-93,564
Debt financing, net	2,860	176,133	47,045	39,130	61,051
Equity financing, net	17,593	172,765	45,844	23,444	18,500
Interest paid	0	-2,212	-6,041	-6,946	-7,997
Dividends paid	0	0	0	-9,841	-12,198
Cash flow from financing	20,453	346,686	86,849	45,788	59,356
Net cash flows	19,372	-8,240	18,617	82	6,272
Cash, start of the year	4	19,376	11,136	29,753	29,835
Cash, end of the year	19,376	11,136	29,753	29,835	36,108
Adjusted EBITDA/share (in €)	n.m.	0.14	0.20	0.22	0.26
FFO I	1,205	7,930	19,681	24,397	30,121
FFO I/share	0.08	0.10	0.15	0.17	0.20
Y-Y Growth					
Operating cash flow	n.m.	n.m.	n.m.	-3.1%	21.4%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	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	1 June 2016	€3.10	Buy	€3.90
4	21 June 2016	€3.08	Buy	€3.90
5	Today	€3.08	Buy	€3.90

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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:

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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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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