

WCM Beteiligungs- und Grundbesitz-AG

Germany / Financial Services

Frankfurt Stock Exchange

Bloomberg: WCMK GR

ISIN: DE000A1X3X33

Update

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€3.90**

54.6%

High

TARGETED PORTFOLIO VOLUME OF €1BN ON THE HORIZON

WCM announced the acquisition of a property portfolio that includes three retail centres with a total 88,000m² of rental space for €98.2m. This increases the overall portfolio value to €766m, thereby propelling the company closer to its targeted €1bn in commercial assets. The company set this target less than two years ago when the portfolio value was a mere €17m. We believe the new portfolio features attractive metrics and will help insulate the company from market risks. We maintain our Buy rating and €3.90 price target.

Portfolio approaches €1bn mark after latest deal The new retail portfolio is located in the federal states of Saxony-Anhalt and Baden-Wuerttemberg and features a vacancy rate of 7%—management target a vacancy rate of 6.5% - 8.0% for retail properties—and WALT (weighted average lease time) of 5.6 years. We expect the newly acquired portfolio, which is scheduled to close in Q1/17, to generate annualised rental income of some €7.6m with an implied gross initial yield of 7.7%. The anchor tenant for all three locations is a leading grocery chain. WCM exited H1/16 with a commercial portfolio volume of €576m. Following the deal, WCM increases its portfolio to €766m (pro-forma). Annualised rental income consequently climbs to some €46m and annualized FFO I now tops €25m. These KPIs gives us a high degree of confidence in our near term forecasts. The WALT for the pro-forma portfolio now stands at 9.2 years with a vacancy rate of 4.7%. The company financed the deal with a combination of cash and mortgage lending. Meanwhile, the pro-forma cost of debt remains below 2% and the average maturity rate is north of six years. On a pro-forma rental income basis, the Retail segment now accounts for 58% of the portfolio with Office segment now at 42%. In our view, the overall portfolio metrics help insulate the company from unfavourable macroeconomic developments. (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.

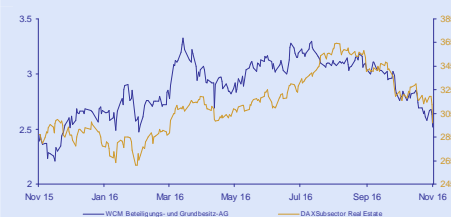
MARKET DATA

As of 10 Nov 2016

Closing Price	€ 2.52
Shares outstanding	131.96m
Market Capitalisation	€ 332.81m
52-week Range	€ 2.21 / 3.33
Avg. Volume (12 Months)	484,404

Multiples	2015	2016E	2017E
P/FFO I	24.0	16.6	14.6
P/EPRA NAV	1.0	0.9	0.8
FFO I Yield	4.2%	6.0%	6.8%
Div. Yield	0.0%	3.0%	3.4%

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%



Share price attractive at current levels Following the recent correction, the share price is now trading in line with the last reported NAV (Q2: €2.54/share) and some 13% below the pro-forma NAV of €2.85/share. Moreover, the company will distribute a dividend to shareholders on 2016 results. We currently estimate this to be 50% of FFO I, which corresponds to a 3% dividend yield.

EPRA NAV VALUATION

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	106,009	67,310	65,106	48,633
Dividends paid	-	9,841	12,198	15,060
Present value of dividends paid	-	9,214	10,778	13,305

Fair value calculation	
PV of total value created	287,057
NAV (2015)	269,582
Adjustments	0
Equity value	556,639
PV of dividends	33,296
Fair value	589,935
Number of shares (000's, fully diluted)	151,996
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	0.152	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	1 June 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	24 August 2016	€3.08	Buy	€3.90
6	Today	€2.52	Buy	€3.90

Authored by: Ellis Acklin, Analyst

Company responsible for preparation:

First Berlin Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 83 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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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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