

WCM Beteiligungs- und Grundbesitz-AG

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

Q3 2016
 Results

RATING
BUY

PRICE TARGET
€3.70

Return Potential 41.2%
 Risk Rating High

HEADLINE Q3 FIGURES UNDERSCORE PORTFOLIO QUALITY

Third quarter results increased substantially Y/Y led by rental income and funds from operations (FFO I). Rental income climbed some 121% to €8.4m (Q3/15: €3.8m), driven by portfolio growth. Rental income translated strongly into FFO I of €4.6m (Q3/15: €4.4m). Results were somewhat below our estimates, due to longer than expected deal closures, and we have decreased our 2016 targets slightly. We now target FFO I of €18.1m (previously: €19.7m). Management continue to guide for FFO I of €18m - €21m. Our revised forecasts yield a new fair value of €3.70/share (previously: €3.90). Following the overall sector correction, the stock is now trading some 8% below pro-forma EPRA NAV. We maintain our Buy rating.

Rental income continues its ascent Rental income (RI) surged to €8.4m but missed our forecast (Q3/15: €3.8m; FBe: €9.3m). Growth was driven by the performance of the existing properties as well as the 14% expansion of the portfolio since FY15. On a nine month basis, rental income nearly tripled to €23.8m compared to €6.0m in the prior year period. Thanks to the portfolio expansion, annualised rental income increased to €33.7m compared to €31.5m at year-end 2015. On a pro-forma basis—including the contracted “Neo” and “Mia” portfolios—annualised rental income is €46.3m giving us a high degree of confidence in our 2017 forecasts. Operational KPIs also continue to improve. The weighted average remaining lease term (WALT) stood at 9.3 years compared to 9.4 at the end of Q2. On a pro-forma basis, the WALT equals 8.5 years. EPRA vacancy was reported at 4.1% (pro-forma: 4.3%)

Top line and valuation profits spur earnings growth Operating income totalled €5.6m in the third quarter (Q3/15: €14.1m). The prior year figure was boosted by a strong property revaluation result totalling some €13.0m. 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. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016E	2017E	2018E	2019E
Rental income (€m)	0.00	10.45	32.32	43.60	52.52	57.97
Y/Y growth	n.a.	n.a.	209.4%	34.9%	20.5%	10.4%
Adj. EBITDA (€m)	-0.67	10.73	25.30	32.62	41.00	46.62
Net income (€m)	1.2	57.7	36.0	57.1	67.2	73.0
EPS (€)	0.08	0.72	0.27	0.38	0.42	0.44
EPRA NAV (€m)	31.81	290.61	364.13	454.54	533.04	605.29
DPS (€)	0.00	0.00	0.07	0.09	0.10	0.12
FFO I (€m)	0.00	7.93	18.15	25.12	32.03	36.56
Net gearing	-36.4%	96.8%	86.6%	86.8%	86.4%	80.7%
Liquid assets (€m)	19.64	11.31	19.70	18.49	24.95	38.60

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 28 Nov 2016

Closing Price	€ 2.62
Shares outstanding	131.96m
Market Capitalisation	€ 345.88m
52-week Range	€ 2.30 / 3.33
Avg. Volume (12 Months)	473,056

Multiples	2015	2016E	2017E
P/FFO I	25.0	18.9	15.2
P/EPRA NAV	1.1	1.0	0.9
FFO I Yield	4.0%	5.3%	6.6%
Div. Yield	0.0%	2.6%	3.3%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2016

Liquid Assets	€ 34.30m
Current Assets	€ 54.10m
EPRA NAV	€ 338.30m
Total Assets	€ 660.30m
Current Liabilities	€ 26.80m
Total Equity	€ 313.50m

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%



We refer to adjusted EBITDA to measure operating profitability, which excludes property revaluation gains and disposals. Including adjustments made for exceptional items, adj. EBITDA amounted to €6.2m in the third quarter. Net income (NI) of €11.6m in Q3 contributed to the rise in EPRA NAV to €338m or €2.56 per share (FY15: €291m; €2.38). On a nine month basis, adjusted EBITDA (including adjustments for non-recurring exceptional items) totalled €18.3m vs €4.4m in the previous year, whereas NI totalled €16.9m (9M/15: €17.6m). The pro-forma EPRA NAV is €376m or €2.85/share

Table 1: Key results vs forecasts

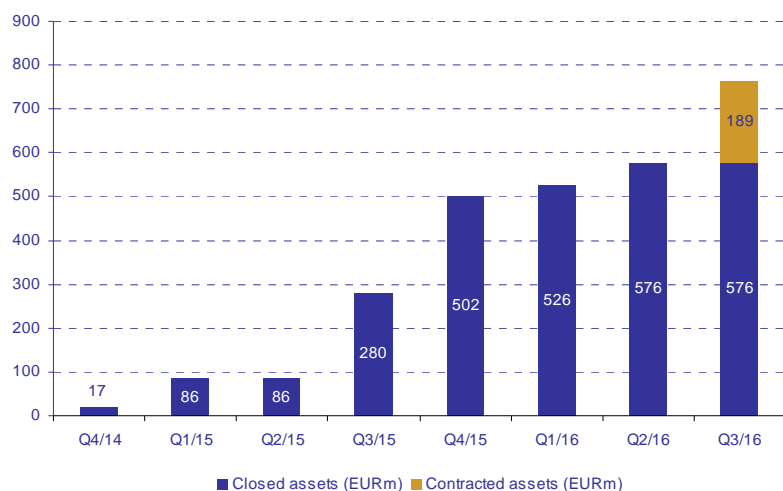
in €'000	Q3 2016	Q3 2016E	% delta	Q3 2015	% delta	9M 2016	9M 2015	% delta
Rental income	8,407	9,311	-9.7%	3,806	121%	23,849	5,999	297.5%
Adjusted EBITDA ¹	6,195	7,076	-12.5%	3,577	73%	18,339	4,414	315.5%
Margin (%)	73.7%	76.0%	-	94.0%	-	76.9%	73.6%	-
FFO I	4,587	5,027	-8.8%	4,381	5%	12,888	4,602	180.1%

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

Recent deals set to boost earnings and operational metrics WCM has contracted two new deals since the beginning of September, which will boost the overall portfolio volume to €766m (Q3/16: €576m) The two retail portfolios are set to contribute some €12.5m in rental income and a further €7.1m in funds from operations. The Neo portfolio is set to close by the end of this year and features a 7.4 year WALT with a 4% vacancy rate and gross yield of 6.7%. The Mia retail centres feature a 5.6 year WALT with a 7% vacancy rate and gross yield of 7.7% and projected to close in Q1/17.

Figure 1: Quarterly investment portfolio development



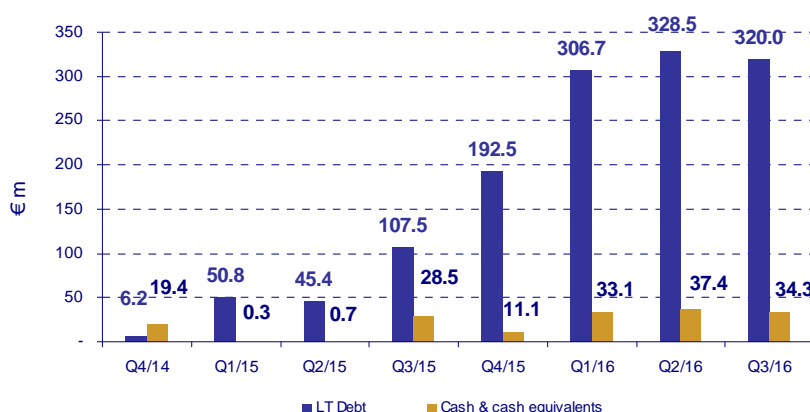
Source: First Berlin Equity Research; WCM

**Table 2: Select financial highlights 9M/16**

in €'000	9M/16	2015	Delta
Cash & liquid assets	34,331	11,136	208.3%
Investment property	576,379	505,731	14.0%
Total equity	313,533	269,582	16.3%
EPRA NAV	338,326	290,608	16.4%
Interest bearing debt	324,204	264,131	22.7%
Net debt	289,873	252,995	14.6%
Loan-to-Value (LTV)	50.3%	50.0%	-
Equity ratio	47.5%	48.9%	-

Source: First Berlin Equity Research; WCM

Balance sheet metrics virtually unchanged Q/Q The debt structure featured a Loan-to-Value (LTV) of 50% (Q2/16: 50%; Q4/15: 50%). We believe this KPI will remain steady at 50% in Q4. The debt structure remains healthy with a 6.0 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. WCM exited the third quarter with cash and liquid assets of €34.3m compared to €37.4m at the end of Q2/16 and €11.1m at the end of 2015. Net debt also remained stable Q/Q at €289m. On an adjusted EBITDA basis, the interest coverage ratio improved to 3.2x (Q2/16: 1.4x).

Figure 2: Long term debt and liquidity developments

Source: First Berlin Equity Research; WCM

Operating cash flow amounted to €10.8m in H1/16 thanks chiefly to the positive net result. The cash outflow from investing activities totalled €45.5m owing heavily to property acquisitions. This was offset by cash flow from financing activities amounting to €57.9m leading to a change in cash of €23.2m in the first nine months. Driven chiefly by the positive net result, EPRA NAV increased to €338m corresponding to a 16.4% increase since the end of 2015.

Adjusting forecast to account for latest results We have dialled back our RI and FFO I assumptions for FY16 to account for the slower than anticipated closures of the recent transactions. We now expect FFO I just above the lower end of the guided range (€18m—€21m) at €18.1m. At the same time, we have increased our FY17 numbers to reflect the volume and yields of the recent deals, which have boosted the annualised RI and FFO I run rates. We have also lowered our forecasts for the property revaluation gains KPI, to account for the lower than expect result so far and a more conservative view on the market. The company will distribute a dividend to shareholders on 2016 results. We currently estimate this to be 50% of FFO I, which corresponds to some €0.07/share and a 3% dividend yield.

**Table 3: Changes to our forecasts**

in €'000	2016E			2017E		
	old	new	% delta	old	new	% delta
Rental income	34,395	32,322	-6.0%	40,643	43,595	7.3%
Adjusted EBITDA	25,722	25,303	-1.6%	31,342	32,050	2.3%
Margin (%)	74.8%	78.3%	-	77.1%	73.5%	-
FFO	19,681	18,154	-7.8%	24,397	24,555	0.6%

Source: First Berlin Equity Research

Share price represents good value; reiterate Buy rating 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. Including the contracted portfolios, WCM now has 57 assets valued at €766m. Although supply is tightening, management also indicated the pipeline currently contains some €300m in new office and retail assets under review and negotiation. We expect this to translate into further deals next year propelling the company towards its €1bn portfolio target. After the recent correction in the WCM share price in the wake of interest rate and bubble fears, the shares are now trading some 8% below the pro-forma EPRA NAV of €2.85. We maintain our Buy rating with a €3.70 price target (previously: €3.90).

EPRA NAV VALUATION

In €'000	2016E	2017E	2018E	2019E
Shareholders' equity	347,251	432,088	504,272	569,851
Consolidated NAV	356,913	444,035	518,908	587,406
NAV per share	2.75	3.06	3.36	3.71
Deferred taxes	7,218	10,505	14,129	17,886
Revaluation of trading properties	-	-	-	-
EPRA NAV	364,131	454,540	533,037	605,292
EPRA NAV per share	2.62	3.00	3.39	3.78
FFO	18,154	25,121	32,031	36,559
Revaluation results	25,679	32,868	36,241	37,577
New Equity	48,779	37,127	19,202	10,960
Total return	92,611	95,116	87,474	85,096

In €'000	2016	2017	2018	2019
EPRA NAV	364,131	454,540	533,037	605,292
Return on NAV	32%	26%	19%	16%
Cost of equity	7.0%	7.0%	7.0%	7.0%
Spread	25%	19%	12%	9%

In €'000	2016	2017	2018	2019
WACC	6.0%	6.0%	6.0%	6.0%
Value creation	90,593	86,964	65,326	54,327
NPV	90,142	81,658	57,885	48,131
Dividends paid	-	9,077	12,561	16,016
Present value of dividends paid	-	8,523	11,130	14,189

Fair value calculation	
PV of total value created	277,815
NAV (2015)	269,582
Adjustments	0
Equity value	547,397
PV of dividends	33,842
Fair value	581,239
Number of shares (000's, fully diluted)	159,351
Fair value per share (€)	3.70



INCOME STATEMENT

All figures in EUR '000	2014	2015	2016E	2017E	2018E
Rental income	0	10,445	32,322	43,595	52,521
Property OpEx	0	-885	-2,263	-3,706	-4,464
Net rental income	0	9,560	30,059	39,890	48,056
Disposals	0	0	799	0	0
Capital gains, property revaluations & gains from disposals	0	54,904	25,679	32,868	36,241
Other operating income	996	3,012	1,000	1,000	1,000
Personnel expenses	-180	-1,530	-4,202	-2,616	-2,731
Other operating expenses	-1,489	-6,715	-9,554	-5,657	-5,330
Depreciation & amortisation	0	-359	-646	-872	-1,050
Operating income (EBIT)	-673	58,872	43,135	64,613	76,186
Net financial result	-209	-2,076	-6,137	-7,495	-8,964
Other financial expenses	1	0	0	0	0
Pre-tax income (EBT)	-881	56,796	36,998	57,118	67,222
Income taxes	2,087	879	-1,012	0	0
Net income / loss	1,206	57,675	35,985	57,118	67,222
Minority interests	0	3,383	1,439	2,285	2,689
Net income after minorities	1,206	54,292	34,546	54,833	64,533
Basic EPS (in €)	0.08	0.72	0.27	0.38	0.42
Diluted EPS (in €)	0.08	0.72	0.26	0.38	0.42
Adjusted EBITDA	-673	10,727	25,303	32,617	40,995
Ratios					
Adjusted EBITDA margin	n.m.	102.7%	78.3%	74.8%	78.1%
Tax rate	4.0%	0.0%	0.0%	0.0%	0.0%
Expenses as % of revenues					
Property OpEx	n.m.	8.5%	7.0%	8.5%	8.5%
Personnel expenses	n.m.	14.6%	13.0%	6.0%	5.2%
Y-Y Growth					
Revenues	n.m.	n.m.	209.4%	34.9%	20.5%
Operating income	n.m.	n.m.	-26.7%	49.8%	17.9%
Adjusted EBITDA	n.m.	n.m.	135.9%	28.9%	25.7%
Net income/ loss	n.m.	4682.3%	-37.6%	58.7%	17.7%



BALANCE SHEET

All figures in EUR '000	2014	2015	2016E	2017E	2018E
Assets					
Current assets, total	23,311	30,446	36,117	35,525	42,473
Cash and cash equivalents	19,376	11,136	19,525	18,309	24,763
Property held for sale	0	4,185	0	0	0
Trade receivables	0	309	1,771	2,389	2,878
Other current assets	3,935	14,816	14,821	14,827	14,832
Non-current assets, total	20,578	520,478	662,987	829,575	970,668
Property, plant & equipment	483	4,807	4,903	5,001	5,101
Investment property	17,337	501,546	641,327	804,465	941,767
Other LT assets	2,758	14,125	16,757	20,109	23,799
Total assets	43,889	550,924	699,104	865,099	1,013,140
Shareholders' equity & debt					
Current liabilities, total	5,879	88,877	78,697	82,636	96,595
Short-term debt	1,966	76,316	64,069	65,585	76,702
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	263,494	338,429	397,637
Long-term debt	6,201	187,815	256,276	327,924	383,508
Deferred tax liabilities	0	4,650	7,218	10,505	14,129
Minority interests	1,050	8,223	9,662	11,947	14,636
Shareholders' equity	30,759	261,359	347,251	432,088	504,272
Loss carryforward / retained earnings	-16,799	62,420	96,966	142,722	194,694
Total consolidated equity and debt	43,889	550,924	699,104	865,099	1,013,140
Ratios					
Current ratio (x)	3.97	0.34	0.46	0.43	0.44
Equity ratio	72.5%	48.9%	51.1%	51.3%	51.2%
Financial leverage	-36.4%	96.8%	86.6%	86.8%	86.4%
Book value per share (€)	2.11	3.45	2.66	2.96	3.26
Net debt	-11,209	252,995	300,820	375,200	435,447
Return on equity (ROE)	3.9%	22.1%	10.4%	13.2%	13.3%
Loan-to-value (LTV)	n.a.	52.2%	50.0%	48.9%	48.9%



CASH FLOW STATEMENT

All figures in EUR '000	2014	2015	2016E	2017E	2018E
Net income	1,206	57,675	35,985	57,118	67,222
Capital gains, property revaluations & other	0	-54,904	-26,478	-32,868	-36,241
Depreciation & amortisation	0	359	646	872	1,050
Net finance expenses	0	2,076	6,137	7,495	8,964
Tax result	0	722	1,012	0	0
Operating cash flow	1,206	5,928	17,303	32,617	40,995
Proceeds from disposal of trading properties	0	0	4,984	0	0
Changes in working capital	2,348	-11,850	79	1,163	1,568
Provisions and other liabilities	-1,868	3,324	457	571	714
Tax paid	0	12	-1,012	0	0
Net operating cash flow	1,686	-2,586	21,811	34,351	43,277
CapEx/ intangibles	0	-4,748	-743	-970	-1,150
Outflows for investment property	-3,086	-347,658	-114,102	-130,270	-101,061
Inflows from disposal of PP&E	319	66	0	0	0
Cash flow from investing	-2,767	-352,340	-114,844	-131,240	-102,211
Debt financing, net	2,860	176,133	56,214	73,164	66,700
Equity financing, net	17,593	172,765	51,346	39,081	20,212
Interest paid	0	-2,212	-6,137	-7,495	-8,964
Dividends paid	0	0	0	-9,077	-12,561
Cash flow from financing	20,453	346,686	101,423	95,673	65,388
Net cash flows	19,372	-8,240	8,389	-1,216	6,454
Cash, start of the year	4	19,376	11,136	19,525	18,310
Cash, end of the year	19,376	11,136	19,525	18,310	24,763
Adjusted EBITDA/share (in €)	n.m.	0.14	0.19	0.22	0.27
FFO I	1,205	7,930	18,154	25,121	32,031
FFO I/share	0.08	0.10	0.139	0.17	0.21
Y-Y Growth					
Operating cash flow	n.m.	n.m.	n.m.	57.5%	26.0%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	36.5%	15.6%	18.5%

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...2	↓	↓	↓	↓
3	21 June 2016	€3.08	Buy	€3.90
4	24 August 2016	€3.08	Buy	€3.90
5	11 November 2016	€2.52	Buy	€3.90
6	Today	€2.62	Buy	€3.70

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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PRICE TARGET DATES

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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%.

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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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