

# 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****€3.70**

31.5%

High

## RETAIL PROPERTY ACQUISITION KICKS OFF NEW YEAR

WCM announced the acquisition of a retail centre with 12,300m<sup>2</sup> of rental space for €21m. The purchase price was financed by the issuance of a mandatory convertible note to the seller, cash, and the assumption of an existing loan. WCM's overall portfolio value increases to €781m with the addition. The property features a 4.8% EPRA vacancy rate and an initial yield of 6.7%. We believe the commercial market still harbours ample opportunities for WCM to grow its portfolio and expect this to be the first of several deals the company will close this year. We maintain our Buy rating and €3.70 price target.

**Transaction details and projections** The new retail property is located in the German federal state of Thuringia and features an EPRA vacancy rate of 4.8% and a WALT (weighted average lease time) of 5.6 years. The latter is below the current 8.6 year KPI for WCM's retail properties, but we believe there is room to renegotiate and extend leases in the near term. The anchor tenant is a leading grocery chain. Following the Thuringia deal, the overall portfolio will hit the €781m mark (pro-forma). This includes the Mia portfolio, which is scheduled to close at the end of Q1/17 (see note of 11 November 2016). We expect the newly acquired property to generate annualised rental income of €1.4m with an implied gross initial yield of 6.7%. Annualised rental income for the WCM portfolio now projects to some €47.3m and annualised FFO I is now forecasted to top €26.5m. These figures give us a high degree of confidence in our near term forecasts. WCM financed the Jena deal with a combination of cash (€6.0m) and new shares in the form of a mandatory convertible for some €6.4m. The note was subscribed at €2.90 corresponding to a 3.6% premium to Friday's dosing share price, carries a 1.5% coupon, and is due 30 June 2017. The convertible structure essentially equates to a five month lock-up window for the 2.1m new shares. WCM also assumed an existing loan (€13m) for the property with a 2.75%. The debt matures at the end of July 2017, which gives the management to the chance to refinance at more favourable terms. (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.

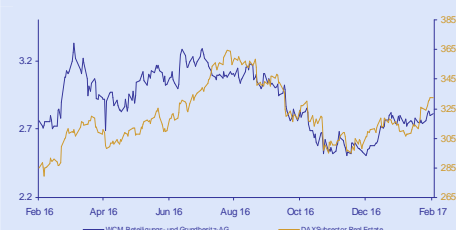
### MARKET DATA

As of 20 Feb 2017

Closing Price	€ 2.81
Shares outstanding	131.96m
Market Capitalisation	€ 371.35m
52-week Range	€ 2.50 / 3.33
Avg. Volume (12 Months)	360,342

Multiples	2015	2016E	2017E
P/FFO I	26.8	20.2	16.3
P/EPRA NAV	1.2	1.1	0.9
FFO I Yield	3.7%	4.9%	6.1%
Div. Yield	0.0%	2.5%	3.1%

### 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

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



**Maintain Buy rating and €3.70 price target** We believe the company has a healthy acquisition pipeline to support further external growth this year propelling WCM towards its targeted €1bn in assets. In our view, the retail segment of the commercial property arena looks promising this year with greater focus on office space in the central districts of major German hubs. Given its attractive FFO I yield and strong underlying portfolio metrics, we believe WCM represents good value at current levels.

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
<b>EPRA NAV per share</b>	<b>2.62</b>	<b>3.00</b>	<b>3.39</b>	<b>3.78</b>
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
<b>Total return</b>	<b>92,611</b>	<b>95,116</b>	<b>87,474</b>	<b>85,096</b>

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%	7%	7%	7%
<b>Spread (percentage points)</b>	<b>25%</b>	<b>19%</b>	<b>12%</b>	<b>9%</b>

In €'000	2016	2017	2018	2019
WACC	6%	6%	6%	6%
Value creation	90,593	86,964	65,326	54,327
NPV	90,593	82,753	58,661	48,776
Dividends paid	-	9,077	12,561	16,016
Present value of dividends paid	-	8,637	11,279	14,379

Fair value calculation	
PV of total value created	280,783
NAV (2015)	269,582
Adjustments	0
Equity value	550,365
PV of dividends	34,296
Fair value	584,661
Number of shares (000's, fully diluted)	159,699
<b>Fair value per share (€)</b>	<b>3.70</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>32,322</b>	<b>43,595</b>	<b>52,521</b>
Property OpEx	0	-885	-2,263	-3,706	-4,464
<b>Net rental income</b>	<b>0</b>	<b>9,560</b>	<b>30,059</b>	<b>39,890</b>	<b>48,056</b>
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
<b>Operating income (EBIT)</b>	<b>-673</b>	<b>58,872</b>	<b>43,135</b>	<b>64,613</b>	<b>76,186</b>
Net financial result	-209	-2,076	-6,137	-7,495	-8,964
Other financial expenses	1	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>-881</b>	<b>56,796</b>	<b>36,998</b>	<b>57,118</b>	<b>67,222</b>
Income taxes	2,087	879	-1,012	0	0
<b>Net income / loss</b>	<b>1,206</b>	<b>57,675</b>	<b>35,985</b>	<b>57,118</b>	<b>67,222</b>
Minority interests	0	3,383	1,439	2,285	2,689
<b>Net income after minorities</b>	<b>1,206</b>	<b>54,292</b>	<b>34,546</b>	<b>54,833</b>	<b>64,533</b>
<b>Basic EPS (in €)</b>	<b>0.08</b>	<b>0.72</b>	<b>0.27</b>	<b>0.38</b>	<b>0.42</b>
<b>Diluted EPS (in €)</b>	<b>0.08</b>	<b>0.72</b>	<b>0.26</b>	<b>0.38</b>	<b>0.42</b>
<b>Adjusted EBITDA</b>	<b>-673</b>	<b>10,727</b>	<b>25,303</b>	<b>32,617</b>	<b>40,995</b>
<b>Ratios</b>					
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%
<b>Expenses as % of revenues</b>					
Property OpEx	n.m.	8.5%	7.0%	8.5%	8.5%
Personnel expenses	n.m.	14.6%	13.0%	6.0%	5.2%
<b>Y-Y Growth</b>					
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
<b>Assets</b>					
<b>Current assets, total</b>	<b>23,311</b>	<b>30,446</b>	<b>36,117</b>	<b>35,525</b>	<b>42,473</b>
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
<b>Non-current assets, total</b>	<b>20,578</b>	<b>520,478</b>	<b>662,987</b>	<b>829,575</b>	<b>970,668</b>
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
<b>Total assets</b>	<b>43,889</b>	<b>550,924</b>	<b>699,104</b>	<b>865,099</b>	<b>1,013,140</b>
<b>Shareholders' equity &amp; debt</b>					
<b>Current liabilities, total</b>	<b>5,879</b>	<b>88,877</b>	<b>78,697</b>	<b>82,636</b>	<b>96,595</b>
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
<b>Long-term liabilities, total</b>	<b>6,201</b>	<b>192,465</b>	<b>263,494</b>	<b>338,429</b>	<b>397,637</b>
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
<b>Shareholders' equity</b>	<b>30,759</b>	<b>261,359</b>	<b>347,251</b>	<b>432,088</b>	<b>504,272</b>
Loss carryforward / retained earnings	-16,799	62,420	96,966	142,722	194,694
<b>Total consolidated equity and debt</b>	<b>43,889</b>	<b>550,924</b>	<b>699,104</b>	<b>865,099</b>	<b>1,013,140</b>
<b>Ratios</b>					
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
<b>Net income</b>	<b>1,206</b>	<b>57,675</b>	<b>35,985</b>	<b>57,118</b>	<b>67,222</b>
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
<b>Operating cash flow</b>	<b>1,206</b>	<b>5,928</b>	<b>17,303</b>	<b>32,617</b>	<b>40,995</b>
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
<b>Net operating cash flow</b>	<b>1,686</b>	<b>-2,586</b>	<b>21,811</b>	<b>34,351</b>	<b>43,277</b>
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
<b>Cash flow from investing</b>	<b>-2,767</b>	<b>-352,340</b>	<b>-114,844</b>	<b>-131,240</b>	<b>-102,211</b>
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
<b>Cash flow from financing</b>	<b>20,453</b>	<b>346,686</b>	<b>101,423</b>	<b>95,673</b>	<b>65,388</b>
<b>Net cash flows</b>	<b>19,372</b>	<b>-8,240</b>	<b>8,389</b>	<b>-1,216</b>	<b>6,454</b>
Cash, start of the year	4	19,376	11,136	19,525	18,310
<b>Cash, end of the year</b>	<b>19,376</b>	<b>11,136</b>	<b>19,525</b>	<b>18,310</b>	<b>24,763</b>
<b>Adjusted EBITDA/share (in €)</b>	<b>n.m.</b>	<b>0.14</b>	<b>0.19</b>	<b>0.22</b>	<b>0.27</b>
<b>FFO I</b>	<b>1,205</b>	<b>7,930</b>	<b>18,154</b>	<b>25,121</b>	<b>32,031</b>
<b>FFO I/share</b>	<b>0.08</b>	<b>0.10</b>	<b>0.139</b>	<b>0.17</b>	<b>0.21</b>
<b>Y-Y Growth</b>					
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	24 August 2016	€3.08	Buy	€3.90
4	11 November 2016	€2.52	Buy	€3.90
5	29 November 2016	€2.62	Buy	€3.70
6	Today	€2.81	Buy	€3.70

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**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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- 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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