

WCM Beteiligungs- und Grundbesitz-AG

Germany / Financial Services

Frankfurt Stock Exchange

Bloomberg: WCMK GR

ISIN: DE000A1X3X33

Takeover

RATING**PRICE TARGET**

Return Potential

Risk Rating

ADD**€ 3.36**

4.3%

High

TAKEOVER OFFER FROM TLG IMMOBILIEN AG

WCM has signed a business combination agreement (BCA) with TLG Immobilien AG to form a €3bn pan-German commercial real estate company. The takeout price of €3.36/share represents a 17.8% premium to WCM's pro-forma EPRA NAV, and the new TLG shares will carry dividend rights as of 1 January 2017. The WCM Board will support the BCA and recommend that shareholders accept it. TLG also has irrevocable agreements with key shareholders (~50% of the shares and voting rights) to accept the offer. We thus expect a successful takeover and now value the share in line with the €3.36 takeover price (previously: €4.00). Our rating is now Add (previously: Buy).

Offer terms carry dividend rights TLG will offer one new no-par value share with a notional value of €1.00 in exchange for each 5.75 shares of WCM. The resulting offer price amounts to €3.36 per WCM share corresponding to a 17.8% premium on the company's pro-forma EPRA NAV of €2.85. Considering WCM's proposed €0.10/share dividend, the premium to EPRA NAV climbs to 21.4%. Moreover, new TLG shareholders will be granted dividend rights as of 1 January 2017, meaning they will be eligible for TLG's proposed €0.80/share dividend.

Support for the BCA paves the way for full acceptance TLG announced it has irrevocable agreements in place with WCM's largest shareholders including DIC OF RE 2 GmbH (26.0%), Karl Ehlerding (4.2%), and WCM CEO Stavros Efremidis (2.6%). In total, some 50% of the shares and voting rights have agreed to tender their WCM shares in the offer. Management have also expressed plans to support the bid and recommend shareholders accept the deal. The combined commercial portfolios will top €3bn, while maintaining asset type diversification between office and retail. Some 75% of the portfolio is located in the hubs of Berlin, Frankfurt am Main, Dresden, Leipzig, and Rostock. The combined balance sheet will feature an LTV below management's medium term 45% target, a 2.3% cost of debt, and the combination is expected to generate around €5m in cost synergies annually.

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Rental income (€m)	0.00	10.45	32.61	42.95	51.96	57.46
Y/Y growth	n.a.	n.a.	212.2%	31.7%	21.0%	10.6%
Adj. EBITDA (€m)	-0.67	10.73	25.17	33.18	38.81	42.60
Net income	1.21	57.68	18.56	55.34	67.26	75.51
EPS (diluted) (€)	0.08	0.72	0.12	0.37	0.41	0.44
EPRA NAV (€m)	31.81	290.61	345.40	444.88	528.70	606.95
DPS (€)	0.00	0.00	0.10	0.11	0.12	0.13
FFO I (€m)	0.00	7.93	18.03	23.29	26.33	28.88
FFOPS I	0.09	0.10	0.14	0.16	0.17	0.18
Liquid assets (€ m)	19.64	11.31	10.20	12.77	11.79	12.82

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 11 May 2017

Closing Price	€ 3.22
Shares outstanding	131.96m
Market Capitalisation	€ 424.92m
52-week Range	€ 2.50 / 3.29
Avg. Volume (12 Months)	352,105

Multiples	2016	2017E	2018E
P/FFO I	23.2	19.7	19.0
P/EPRA NAV	1.2	1.1	1.0
FFO I/Yield	4.3%	5.1%	5.3%
Div. Yield	3.0%	3.6%	3.7%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2016

Liquid Assets	€ 10.19m
Current Assets	€ 31.73m
EPRA NAV	€ 343.40m
Total Assets	€ 710.27m
Current Liabilities	€ 40.00m
Total Equity	€ 315.93m

SHAREHOLDERS

DIC OF RE 2 GmbH	26.0%
Karl P. Ehlerding	4.9%
John F. Ehlerding	4.9%
Karl Ehlerding	4.2%
Stavros Efremidis	2.6%
Free Float	57.5%



INCOME STATEMENT

All figures in EUR '000	2014	2015	2016	2017E	2018E
Rental income	0	10,445	32,613	42,947	51,963
Property OpEx	0	-885	-2,817	-3,650	-4,417
Net rental income	0	9,560	29,796	39,296	47,546
Disposals	0	0	799	0	0
Capital gains, property revaluations & gains from disposals	0	54,904	29,213	37,974	44,540
Other operating income	996	3,012	1,454	1,400	1,400
Personnel expenses	-180	-1,530	-4,576	-4,724	-4,677
Other operating expenses	-1,489	-6,715	-12,853	-7,633	-7,823
Depreciation & amortisation	0	-359	-1,086	-1,074	-1,247
Operating income (EBIT)	-673	58,872	42,747	65,240	79,739
Net financial result	-209	-2,076	-7,138	-8,900	-11,317
Other financial expenses	1	0	0	0	0
Pre-tax income (EBT)	-881	56,796	35,609	56,340	68,422
Income taxes	2,087	879	-17,048	-995	-1,164
Net income / loss	1,206	57,675	18,561	55,344	67,257
Minority interests	0	3,383	2,763	3,321	4,035
Net income after minorities	1,206	54,292	15,798	52,024	63,222
Basic EPS (in €)	0.08	0.72	0.12	0.37	0.41
Diluted EPS (in €)	0.08	0.72	0.12	0.37	0.41
Adjusted EBITDA	-673	10,731	25,165	33,181	38,813
Ratios					
Adjusted EBITDA margin	n.m.	102.7%	77.2%	77.3%	74.7%
Tax rate	4.0%	3.0%	3.0%	3.0%	3.0%
Expenses as % of revenues					
Property OpEx	n.m.	8.5%	8.6%	8.5%	8.5%
Personnel expenses	n.m.	14.6%	14.0%	11.0%	9.0%
Y-Y Growth					
Revenues	n.m.	n.m.	212.2%	31.7%	21.0%
Operating income	n.m.	n.m.	-27.4%	52.6%	22.2%
Adjusted EBITDA	n.m.	n.m.	134.5%	31.9%	17.0%
Net income/ loss	n.m.	4682.3%	-67.8%	198.2%	21.5%



BALANCE SHEET

All figures in EUR '000	2014	2015	2016	2017E	2018E
Assets					
Current assets, total	23,311	30,446	31,735	34,413	33,476
Cash and cash equivalents	19,376	11,136	10,013	12,582	11,590
Property held for sale	0	4,185	0	0	0
Trade receivables	0	309	132	235	285
Other current assets	3,935	14,816	21,590	21,596	21,601
Non-current assets, total	20,578	520,478	678,538	959,354	1,123,078
Property, plant & equipment	483	4,807	3,692	3,766	3,841
Investment property	17,337	501,546	662,073	942,117	1,105,011
Other LT assets	2,758	14,125	12,773	13,470	14,226
Total assets	43,889	550,924	710,273	993,767	1,156,554
Shareholders' equity & debt					
Current liabilities, total	5,879	88,877	39,999	68,789	79,115
Short-term debt	1,966	76,316	22,169	48,010	54,874
Trade payables	3,628	10,733	15,077	17,339	19,939
Provisions & current liabilities	285	1,828	2,753	3,441	4,302
Long-term liabilities, total	6,201	192,465	354,341	498,539	571,638
Long-term debt	6,201	187,815	339,695	480,096	548,741
Deferred tax liabilities	0	4,650	14,646	18,443	22,897
Minority interests	1,050	8,223	11,977	15,298	19,333
Shareholders' equity	30,759	261,359	303,956	411,141	486,468
Loss carryforward / retained earnings	-16,799	62,420	78,396	117,801	164,723
Total consolidated equity and debt	43,889	550,924	710,273	993,767	1,156,554
Ratios					
Current ratio (x)	3.97	0.34	0.79	0.50	0.42
Equity ratio	72.5%	48.9%	44.5%	42.9%	43.7%
Financial leverage	-36.4%	96.8%	115.8%	125.4%	121.7%
EPRA NAV	1.97	3.45	2.34	2.89	3.13
EPRA NAV per share (€)	0.94	2.41	2.62	2.94	3.33
Net debt	-11,209	252,995	351,851	515,523	592,025
Return on equity (ROE)	3.9%	22.1%	6.1%	13.5%	13.8%
Loan-to-value (LTV)	47.1%	52.2%	54.7%	56.1%	54.6%
Net LTV	n.a.	50.0%	53.1%	54.7%	53.6%



CASH FLOW STATEMENT

All figures in EUR '000	2014	2015	2016	2017E	2018E
Net income	1,206	57,675	18,561	55,344	67,257
Capital gains, property revaluations & other	0	-54,904	-29,212	-37,974	-44,540
Depreciation & amortisation	0	359	1,086	1,074	1,247
Net financial result	0	2,076	7,138	8,900	11,317
Tax result	0	722	388	995	1,164
Operating cash flow	1,206	5,928	-2,039	28,339	36,446
Proceeds from disposal of trading properties	0	0	0	0	0
Changes in working capital	2,348	-11,850	189	2,008	2,398
Provisions and other liabilities	-1,868	3,324	23,988	3,933	4,707
Tax paid	0	12	-799	-995	-1,164
Net operating cash flow	1,686	-2,586	21,339	33,285	42,386
CapEx/ intangibles	0	-4,748	-424	-1,148	-1,322
Outflows for investment property	-3,086	-347,658	-89,345	-174,291	-89,949
Inflows from disposal of PP&E	319	66	14,002	0	0
Cash flow from investing	-2,767	-352,340	-75,767	-175,438	-91,271
Debt financing, net	2,860	176,133	62,552	166,241	75,510
Equity financing, net	17,593	172,765	-2,415	0	0
Interest paid	0	-2,212	-6,832	-8,900	-11,317
Dividends paid	0	0	0	-12,619	-16,300
Cash flow from financing	20,453	346,686	53,305	144,723	47,892
Net cash flows	19,372	-8,240	-1,123	2,570	-992
Cash, start of the year	4	19,376	11,136	10,013	12,583
Cash, end of the year	19,376	11,136	10,013	12,583	11,591
Adjusted EBITDA/share (in €)	n.m.	0.14	0.19	0.23	0.25
FFO I	1,414	7,931	18,027	23,286	26,332
FFO I/share	0.09	0.10	0.14	0.16	0.17
Y-Y Growth					
EBITDA/share	n.m.	n.m.	36.8%	20.3%	7.0%
FFO I	n.m.	460.9%	127.3%	29.2%	13.1%
FFOPS I	n.m.	15.8%	32.6%	17.9%	3.4%

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...5	↓	↓	↓	↓
6	21 February 2017	€2.81	Buy	€3.70
7	22 March 2017	€3.03	Buy	€3.70
8	28 April 2017	€3.14	Buy	€4.00
9	Today	€3.22	Add	€3.36

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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- valuation methods and principles
- sensitivity of valuation parameters

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