

# WCM Beteiligungs- und Grundbesitz-AG

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

Q2/17  
 Results

**RATING**  
**PRICE TARGET** **ADD**  
 Return Potential 4.9%  
 Risk Rating High

€ 3.36

## Q2 RESULTS REFLECT PORTFOLIO GROWTH

Second quarter results were in line with our forecasts with headline figures continuing to grow. Thanks to the portfolio expansion, rental income (RI) increased 52% Y/Y to €11.8m and FFO I climbed 76% Y/Y to €6.9m. The second quarter performance puts the company on track to hit confirmed guidance (RI: €42m-€44m; FFO I: €23m-€24m). Management hinted it expects RI to hit the top end of the range. On 10 May TLG AG made a takeover offer to all WCM shareholders. Given the support of key shareholders and management, we expect a successful closure in October. We see fair value at €3.36 per share; in line with the takeover price. Our rating remains Add.

**Brief but impressive track record** WCM management built an €801m commercial property portfolio from scratch in a 30 month period, while generating consistently strong operational and valuation growth. Given the quality and location of the assets, the offer comes as little surprise. The TLG offer valued WCM at €463m corresponding to a 17.9% premium on the company's pro-forma EPRA NAV of €2.85 at the time of the offer. Considering WCM's proposed €0.10/share dividend, the premium to EPRA NAV climbed to 21.4%. WCM management have already endorsed the TLG bid, and we expect final closure of the transaction in October this year (see Table 3 overleaf for timetable summary).

**Revenue +52% Y/Y to €11.8m on portfolio expansion** The top line result was in line with our estimate (FBe: €11.8m) with growth spurred mainly by the transactions closed during the first quarter. The RI figure also included a non-recurring rent payment of some €1m. Rental income translated into strong FFO I growth of 76% to €6.9m, despite initial one-off costs associated with the TLG deal. This equated to FFOPS I of €0.04 (Q2/16: €0.03). On a six month basis, RI grew 47% Y/Y to €22.7m. Investment properties now total €801m vs €662m at the end of 2016. EPRA NAV thus increases to €377m or €2.81/share (Q4/16 €345m; €2.62/share) Net income amounted to €17.0m in H1 vs €13.4m in the prior year period and equated to diluted EPS of €0.10 (H1/16: €0.11). (p.t.o.)

## FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Rental income (€m)	0.00	10.45	32.61	43.95	51.96	57.46
Y/Y growth	n.a.	n.a.	212.2%	34.8%	18.2%	10.6%
Adj. EBITDA (€m)	-0.67	10.73	25.17	33.26	38.81	42.60
Net income	1.21	57.68	18.56	54.19	67.26	75.51
EPS (diluted) (€)	0.08	0.72	0.12	0.36	0.41	0.44
EPRA NAV (€m)	31.81	290.61	345.40	443.72	527.49	605.74
DPS (€)	0.00	0.00	0.10	0.12	0.12	0.13
FFO I (€m)	0.00	7.93	18.03	23.36	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	11.61	10.58	11.61

## 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 16 Aug 2017

Closing Price	€ 3.20
Shares outstanding	134.03m
Market Capitalisation	€ 429.29m
52-week Range	€ 2.50 / 3.28
Avg. Volume (12 Months)	333,473

Multiples	2016	2017E	2018E
P/FFO I	23.0	19.5	18.9
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 30 Jun 2017

Liquid Assets	€ 29.70m
Current Assets	€ 53.47m
EPRA NAV	€ 376.90m
Total Assets	€ 869.55m
Current Liabilities	€ 89.87m
Total Equity	€ 342.15m

## SHAREHOLDERS

DIC OF RE 2 GmbH	24.8%
Karl P. Ehlerding	4.5%
John F. Ehlerding	4.7%
Karl Ehlerding	4.0%
Stavros Efremidis	2.5%
Free Float	57.5%

**Table 1: Second quarter results vs forecasts**

in €'000	Q2 2017	Q2 2017E	% delta	Q2 2016	% delta	6M 2017	6M 2016	% delta
Rental income	11,838	11,822	0.1%	7,678	54%	22,687	15,442	46.9%
Adjusted EBITDA	8,302	8,689	-4.5%	5,828	42%	16,665	11,793	41.3%
Margin (%)	70.1%	73.5%	-	75.9%	-	73.5%	76.4%	-
FFO I	6,918	6,492	6.6%	3,920	76%	11,505	8,301	38.6%
FFOPS I	0.04	0.03	6.6%	0.03	21%	0.08	0.07	14.3%

Source: First Berlin Equity Research; Company

Adjusted EBITDA, which reflects recurring operating profit and excludes non-cash effects, climbed some 42% Y/Y in Q2/17 to €8.3m (Q2/16: €5.8m). On a six month basis, the KPI climbed 41% to €16.7m. The improvement reflects the underlying portfolio growth over the past year. WCM incurred one-off transaction and non-cash expenses of some €6.0m over the first six months. Personnel expenses increased to €2.4m (Q1/16: €1.7m) in line with the portfolio growth.

FFO I measures bottom line profits and climbed some 76% Y/Y in Q2/17 to €6.9m compared to €3.9m in the prior year period. This strong conversion of adj. EBITDA into FFO I reflects the excellent financing conditions. On a six month basis, FFO I reached €11.5m or €0.08 per share. This was just ahead of the prior year figure (H1/16: €0.07/share) due to the higher share count.

**Balance sheet stable; ample cash position** WCM reported cash and liquid assets of €29.7m for the period ended 30 June compared to €10m at the end of 2016. Net debt totalled to €449m vs €352m at the end of 2016 and €470m at the end of Q1. The debt portfolio features a 1.9% cost of debt (Q4/16: 2.0%) and a maturity north of five years. The company reported an LTV of 56% at the end of the quarter compared to 53% at end 2016.

The increase in net operating cash flow to €15.8m (H1/16: €6.7m) stems from the Y/Y portfolio growth and associated rise in rental and operating income. Cash outflow from investing was above the prior year level at €56.5m (H1/16: €42m) owing to acquisition outflows, whereas the 2016 period also included a disposal inflow of €13.6m. Cash flow from financing totalled €60m vs €62m in the prior year period. The cash position thus increased some €20m to €30m at the end of the period.

**Adjustments to forecasts** We have moved our 2017 rental income estimate to the upper end of the guided range to account for the aforementioned €1m one-off payment. The uplift to FFO I is however somewhat offset by one-off expenses from the TLG deal to be incurred in H2.

**Table 2: Changes to forecasts**

in €'000	2017E			2018E		
	old	new	% delta	old	new	% delta
Rental income	42,947	43,947	2.3%	51,963	51,963	0.0%
FFO I	23,286	23,364	0.3%	26,332	26,332	0.0%

Source: First Berlin Equity Research



## APPENDIX

**Table 3: Timetable summary for TLG takeover offer**

	<b>Date</b>
Approval of tender offer by BaFin	27 June
Offer period	28 June - 6 Sept
Publication of the statement of the Management and Supervisory Board of WCM in support of the offer	5 July
Expected publication of the tender offer results and start of 2-week additional acceptance period	13 Sept
Additional acceptance period	14 - 27 Sept
Expected publication of the final results of tender offer	5 Oct
Transaction closing	Oct 2017

Source: First Berlin Equity Research; Company



## INCOME STATEMENT

All figures in EUR '000	2014	2015	2016	2017E	2018E
<b>Rental income</b>	<b>0</b>	<b>10,445</b>	<b>32,613</b>	<b>43,947</b>	<b>51,963</b>
Property OpEx	0	-885	-2,817	-3,735	-4,417
<b>Net rental income</b>	<b>0</b>	<b>9,560</b>	<b>29,796</b>	<b>40,211</b>	<b>47,546</b>
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	-4,834	-4,677
Other operating expenses	-1,489	-6,715	-12,853	-9,568	-7,823
Depreciation & amortisation	0	-359	-1,086	-1,099	-1,247
<b>Operating income (EBIT)</b>	<b>-673</b>	<b>58,872</b>	<b>42,747</b>	<b>64,085</b>	<b>79,739</b>
Net financial result	-209	-2,076	-7,138	-8,900	-11,317
Other financial expenses	1	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>-881</b>	<b>56,796</b>	<b>35,609</b>	<b>55,185</b>	<b>68,422</b>
Income taxes	2,087	879	-17,048	-998	-1,164
<b>Net income / loss</b>	<b>1,206</b>	<b>57,675</b>	<b>18,561</b>	<b>54,187</b>	<b>67,257</b>
Minority interests	0	3,383	2,763	3,251	4,035
<b>Net income after minorities</b>	<b>1,206</b>	<b>54,292</b>	<b>15,798</b>	<b>50,936</b>	<b>63,222</b>
<b>Basic EPS (in €)</b>	<b>0.08</b>	<b>0.72</b>	<b>0.12</b>	<b>0.36</b>	<b>0.41</b>
<b>Diluted EPS (in €)</b>	<b>0.08</b>	<b>0.72</b>	<b>0.12</b>	<b>0.36</b>	<b>0.41</b>
<b>Adjusted EBITDA</b>	<b>-673</b>	<b>10,731</b>	<b>25,165</b>	<b>33,261</b>	<b>38,813</b>
<b>Ratios</b>					
Adjusted EBITDA margin	n.m.	102.7%	77.2%	75.7%	74.7%
Tax rate	4.0%	3.0%	3.0%	3.0%	3.0%
<b>Expenses as % of revenues</b>					
Property OpEx	n.m.	8.5%	8.6%	8.5%	8.5%
Personnel expenses	n.m.	14.6%	14.0%	11.0%	9.0%
<b>Y-Y Growth</b>					
Revenues	n.m.	n.m.	212.2%	34.8%	18.2%
Operating income	n.m.	n.m.	-27.4%	49.9%	24.4%
Adjusted EBITDA	n.m.	n.m.	134.5%	32.2%	16.7%
Net income/ loss	n.m.	4682.3%	-67.8%	191.9%	24.1%



## BALANCE SHEET

All figures in EUR '000	2014	2015	2016	2017E	2018E
<b>Assets</b>					
<b>Current assets, total</b>	<b>23,311</b>	<b>30,446</b>	<b>31,735</b>	<b>33,256</b>	<b>32,264</b>
Cash and cash equivalents	19,376	11,136	10,013	11,420	10,378
Property held for sale	0	4,185	0	0	0
Trade receivables	0	309	132	241	285
Other current assets	3,935	14,816	21,590	21,596	21,601
<b>Non-current assets, total</b>	<b>20,578</b>	<b>520,478</b>	<b>678,538</b>	<b>959,354</b>	<b>1,123,078</b>
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
<b>Total assets</b>	<b>43,889</b>	<b>550,924</b>	<b>710,273</b>	<b>992,610</b>	<b>1,155,342</b>
<b>Shareholders' equity &amp; debt</b>					
<b>Current liabilities, total</b>	<b>5,879</b>	<b>88,877</b>	<b>39,999</b>	<b>68,789</b>	<b>79,115</b>
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
<b>Long-term liabilities, total</b>	<b>6,201</b>	<b>192,465</b>	<b>354,341</b>	<b>498,539</b>	<b>571,638</b>
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	15,228	19,264
<b>Shareholders' equity</b>	<b>30,759</b>	<b>261,359</b>	<b>303,956</b>	<b>410,053</b>	<b>485,325</b>
Loss carryforward / retained earnings	-16,799	62,420	78,396	116,713	163,581
<b>Total consolidated equity and debt</b>	<b>43,889</b>	<b>550,924</b>	<b>710,273</b>	<b>992,610</b>	<b>1,155,342</b>
<b>Ratios</b>					
Current ratio (x)	3.97	0.34	0.79	0.48	0.41
Equity ratio	72.5%	48.9%	44.5%	42.8%	43.7%
Financial leverage	-36.4%	96.8%	115.8%	126.0%	122.2%
EPRA NAV	31,809	290,608	345,400	443,725	527,486
EPRA NAV per share (€)	0.94	2.41	2.62	2.93	3.32
Net debt	-11,209	252,995	351,851	516,685	593,237
Return on equity (ROE)	3.9%	22.1%	6.1%	13.2%	13.9%
Loan-to-value (LTV)	47.1%	52.2%	54.7%	56.1%	54.6%
Net LTV	n.a.	50.0%	53.1%	54.8%	53.7%



## CASH FLOW STATEMENT

All figures in EUR '000	2014	2015	2016	2017E	2018E
<b>Net income</b>	<b>1,206</b>	<b>57,675</b>	<b>18,561</b>	<b>54,187</b>	<b>67,257</b>
Capital gains, property revaluations & other	0	-54,904	-29,212	-37,974	-44,540
Depreciation & amortisation	0	359	1,086	1,099	1,247
Net financial result	0	2,076	7,138	8,900	11,317
Tax result	0	722	388	998	1,164
<b>Operating cash flow</b>	<b>1,206</b>	<b>5,928</b>	<b>-2,039</b>	<b>27,210</b>	<b>36,446</b>
Proceeds from disposal of trading properties	0	0	0	0	0
Changes in working capital	2,348	-11,850	189	2,003	2,403
Provisions and other liabilities	-1,868	3,324	23,988	3,933	4,707
Tax paid	0	12	-799	-998	-1,164
<b>Net operating cash flow</b>	<b>1,686</b>	<b>-2,586</b>	<b>21,339</b>	<b>32,148</b>	<b>42,392</b>
CapEx/ intangibles	0	-4,748	-424	-1,173	-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
<b>Cash flow from investing</b>	<b>-2,767</b>	<b>-352,340</b>	<b>-75,767</b>	<b>-175,463</b>	<b>-91,271</b>
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	-16,355
<b>Cash flow from financing</b>	<b>20,453</b>	<b>346,686</b>	<b>53,305</b>	<b>144,723</b>	<b>47,838</b>
<b>Net cash flows</b>	<b>19,372</b>	<b>-8,240</b>	<b>-1,123</b>	<b>1,407</b>	<b>-1,042</b>
Cash, start of the year	4	19,376	11,136	10,013	11,420
<b>Cash, end of the year</b>	<b>19,376</b>	<b>11,136</b>	<b>10,013</b>	<b>11,420</b>	<b>10,379</b>
<b>Adjusted EBITDA/share (in €)</b>	<b>n.m.</b>	<b>0.14</b>	<b>0.19</b>	<b>0.23</b>	<b>0.25</b>
<b>FFO I</b>	<b>1,414</b>	<b>7,931</b>	<b>18,027</b>	<b>23,364</b>	<b>26,332</b>
<b>FFO I/share</b>	<b>0.09</b>	<b>0.10</b>	<b>0.14</b>	<b>0.16</b>	<b>0.17</b>
<b>Y-Y Growth</b>					
EBITDA/share	n.m.	n.m.	36.8%	20.6%	6.7%
FFO I	n.m.	460.9%	127.3%	29.6%	12.7%
FFOPS I	n.m.	15.8%	32.6%	18.3%	3.1%

**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...7	↓	↓	↓	↓
8	28 April 2017	€3.14	Buy	€4.00
9	12 May 2017	€3.22	Add	€3.36
10	17 May 2017	€3.24	Add	€3.36
11	Today	€3.20	Add	€3.36

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First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

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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/>

**SUPERVISORY AUTHORITY:** Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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