FCR Immobilien AG

Germany / Real Estate
Frankfurt Stock Exchange
Bloomberg: FC9 GR
ISIN: DE000A1YC913

Initiation of Coverage

RATING	**BUY**
PRICE TARGET	**€ 25.00**
Return Potential	33.0%
Risk Rating	High

GOING LONG SMALL TOWN RETAIL

FCR Immobilien AG (FCR) specialises in the acquisition and management of commercial properties in the German real estate market. The company strategy is focused chiefly on retail properties in secondary locations (B and C cities) that offer strong underlying market dynamics. The first nine months of 2018 have been exceptionally strong with the portfolio expanding some 94% YTD. Thanks to a healthy pipeline and a portfolio with good operational upside, we expect solid earnings and NAV growth over the near term. We start coverage with a Buy rating and €25 price target.

Attractive commercial property growth play We like FCR for its differentiated approach, external growth potential, and operational upside. The company is focused on retail parks, which positions it well between the major landlords, currently in the midst of an office asset buying frenzy. Although FCR is a stock market newcomer, real estate operations were launched in 2004 and have been orchestrated by Falk Raudies, an industry veteran with a successful track record in sourcing accretive deals and extracting value. Other factors underpinning our view are seasoned in-house acquisition and property management teams, and a full pipeline (~€100m). We expect these factors to translate into NAVPS growth of 15% in 2018 and target a three year CAGR of 21% for 2018 – 2020.

Shares trading well below NAV FCR trades at a 12% discount to our projected 2018E NAVPS (€21.1). Thanks to its solid position in secondary locations and retail centre focus, we believe the company can continue its high growth trajectory to compliment its opportunistic disposal (asset rotation) strategy and spur NAV growth. FCR has invested some €78m into retail centres YTD boosting all portfolio KPIs, which now feature a WALT (weighted average lease term) of 4.5 years, a 17% vacancy rate, and an 11% yield based on market value. Moreover, the portfolio harbours good revisionary potential to drive LFL rental income growth. We expect the top and bottom lines to more than double in 2018, thanks to the strong investment cycle.

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018E	2019E	2020E
Revenue (€ m)	12.13	16.39	33.15	43.12	61.11
Y-o-y growth	n.a.	35.1%	102.2%	30.1%	41.7%
EBIT (€ m)	2.33	3.74	7.67	16.44	18.81
Net income (€ m)	0.44	0.97	3.03	7.98	9.30
EPS (diluted) (€)	0.12	0.23	0.73	1.87	2.15
NAV (€ m)	40.31	75.81	89.07	130.38	137.65
NAVPS (€)	9.72	18.28	21.11	30.90	32.62
DPS (€ m)	0.02	0.00	0.15	0.37	0.43
FFO 2 (€ m)	1.29	2.11	5.18	10.18	11.67
Liquid assets (€ m)	6.31	4.95	10.53	9.83	8.43

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavourable macroeconomic developments, and the departure of key personnel.

COMPANY PROFILE

FCR Immobilien AG is a specialist real estate company focused on investing in and managing commerical retail properties primarily located in secondary markets throughout Germany.

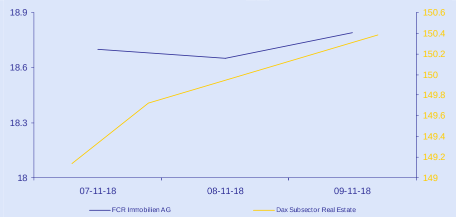
MARKET DATA

As of 11/9/2018

Closing Price	€ 18.79
Shares outstanding	4.22m
Market Capitalisation	€ 79.29m
52-week Range	€ 18.65 / 18.79
Avg. Volume (12 Months)	1,525

Multiples	**2017**	**2018E**	**2019E**
P/FFO 2	60.4	36.9	15.2
P/NAV	1.0	0.9	0.6
FFO 2 Yield	2.7%	6.6%	12.8%
Div. Yield	0.0%	0.8%	2.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	€ 15.18m
Current Assets	€ 19.31m
NAV	€ 75.00m
Total Assets	€ 95.98m
Current Liabilities	€ 0.18m
Shareholders' Equity	€ 7.97m

SHAREHOLDERS

RAT Asset & Trading AG	79.8%
FAMe Invest	9.2%
Free Float	11.0%

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INVESTMENT CASE

Going long small town retail

FCR is a high-growth commercial property player with a focus on secondary locations throughout Germany with substantial clusters in the northwest regions. Its key strengths are deal sourcing, asset management, and a veteran team with strong CRE (commercial real estate) credentials and a solid track record. The company targets retail assets in its chosen hunting grounds that continue to offer higher yields and better vacancy metrics than prime-product in Germany's Big 7 metropolises (Berlin, Düsseldorf, Munich, Frankfurt am Main, Stuttgart, Hamburg and Cologne).

Retail focus in secondary markets offers attractive yields

While most of the listed landlords shy away from the retail asset class in favour of offices and hotels, FCR has a proven track record with retail assets dating back to its early roots. Key performance metrics confirm this approach. Since 2016, the number of properties has expanded at a 38% CAGR to 44 properties, while annualised rental income (RI) climbed at the same rate to €13.2m. Whereas yields for highly coveted office assets have been compressed for some time, FCR's focus generates attractive yields. The company reported an 11.7% yield at the nine month juncture.

Proven acquisition and financing strategy drives portfolio expansion

Following YTD investments of some €102m into 13 new single properties and one portfolio, the FCR portfolio now features 200,000 m² of lettable space with 17% vacancy rate. This compares to 144,000 m² at the end of 2017. Management have hinted at a ~€250m deal pipeline, which gives us a high degree of confidence in our €130m investment assumption for 2019. Deal financing often includes an 80% debt component with the reminder covered by a combination of operating cash flow and corporate debt issuances. Most recently, FCR issued €25m in straight bond with a 6% coupon.

Landlord business accounts for 37% of group revenue

Thanks to the latest deals, annualised in-place rent rose €7.1m to €13.2m as of nine month reporting. This gives us a high degree of confidence in our rental income forecasts. We expect RI to reach €9.9m in 2018 (+16% Y/Y) but note that the full impact of the deals closed in H2 will not be reflected in the 2018 numbers. We also see good revisionary potential through vacancy reduction or rental uplift and expect RI to reach €21.1m in 2020 equal to a 36% CAGR.

Not just a Buy and Hold approach

Asset rotation is a core part of the overall FCR strategy once an asset has been fully optimised. We reckon that some 20% of the assets are eventually sold to help replenish the financial coffers and boost the company's ability to react quickly to opportunistic deal flow. FCR reported eight property disposals thus far this year and plans to close several more deals this year for properties in Bamberg, Rhaunen, and Burgdorf. We expect this revenue component to contribute some €21m to the 2018 topline and model a 72% CAGR for 2018 – 2020.

Initiating coverage with a Buy rating

We arrive at a €25 price target based on an economic profit model, which demonstrates the ability of FCR to add value to its current book value or not. The main drivers for potential value generation are an increased topline stemming from investments, portfolio optimisation and expected disposal gains. We believe concerns over the portfolio's small town demographic structure are overstated. Our confidence is traced to the company's proven retail park track record and the fact the company's established niche between CRE heavyweights and small investors is working.

SWOT ANALYSIS

STRENGTHS

- **Strategic focus** Concentration is on secondary locations (B and C cities), which offer more attractive yields and lower competition from the big property players. This allows the company to leverage its specific expertise.
- **Tenant structure** To offset the particular risks associated with its secondary location strategy, FCR acquires properties with strong tenants—mainly discount grocers such as Aldi, that are less susceptible to economic downturns.
- **Proven experience and know-how** FCR has an extensive track record having resolved over 84 successful property transactions including 19 disposals. This has helped establish the company as a valued partner for its clients and exposes the pipeline to ample deal flow through a vast network.
- **Process agility** Management is able to react swiftly to opportunities. In today's fast paced RE market, this often allows FCR to scoop up properties quicker than rivals with multi-layers of decision makers.

WEAKNESSES

- **Lack of management diversity** Mr Raudies is the sole member of the executive board. Although he seems more than capable of running operations, a more diversified C-level would certainly be welcomed by investors, now that the company is listed and embarking on an ambitious growth path.
- **High leverage and LTV metric** FCR finances growth chiefly with bank and corporate debt. The latter is issued at relatively high interest rates (>6%) vs larger peers. This structure translates into a potential LTV of 64% and a rather low ICR (interest coverage ratio) of 2.4x on projected 2018 figures. The equity ratio is also rather low (<10%).
- **Small portfolio with limited diversification** Compared to the listed landlords populating the German stock exchanges, FCR offers a relatively modest portfolio volume (H1/18: €73.7m). The retail focus is anchored by quality tenants; however, asset class diversification is thus low (95% retail).

OPPORTUNITIES

- **Asset diversification** Operations are focused on the German retail segment. The company has a small exposure to residential and hotels and could expand this in the future to better diversify. For the time being we expect the company to maintain its present focus to accelerate growth and gain size.
- **Scalability** The company has the key pieces in place to facilitate strong growth going forward. Staffing will need to be beefed up, but personnel costs should rise more slowly than revenues. As long as market dynamics remain favourable, revenue increases should translate into stronger profitability and cash flow growth.

THREATS

- **Increased competition** Currently, competition is lower in FCR's targeted regions; however, yield starved investors may widen their geographic lenses to encompass the same small towns if the current yield trajectory in the Big 7 persists.
- **The next financial crisis** Banking meltdowns are an unfortunate part of human history—there were 124 of them between 1970 and 2007. The precise shape of the next one is unclear; otherwise it would be avoided. But one way or another, the next financial crisis is likely to involve property.
- **Rising interest rates** FCR has two bonds due next year and uses debt to help finance growth. Interest expenses already consume a large portion of operating income. The company may not be able to secure future debt at rates to keep the bottom-line as healthy as current ratios.

VALUATION

We use an economic profit model to value FCR. In general, we believe this approach best illustrates the company's ability to add value with its dual income streams shown in table 1.

Table 1: Income distribution assumptions

	2018-2020E	Share (%)
Landlord business	36,911	58.7%
Profit from disposals	25,988	41.3%
Income from investments	0	0.0%
Total	**62,899**	**100.0%**

Source: First Berlin Equity Research

We assign a WACC of 5.7% based on our multifactor risk model which takes into account company specific risks such as (1) strength of management; (2) earnings quality; (3) portfolio structure; (4) financial risk; (5) competitive position; (6) as well as company size and free float. The primary risk in our view is financing and low equity ratio, although the latter can now improve with the new stock listing and better capital market access. In our view, the WACC suitably reflects the risk associated with the small town retail focus and size of the company vs larger peers with prime assets.

ROCE is north of the WACC for the forecast period. We have assumed a 1.0% growth rate for terminal value (TV) and assume a 15% tax rate common for property operators. Our model discounts economic profits through 2020 plus terminal value to derive a total return of €30.2m. We add YE17 NAV (€72.5m) and adjust for the estimated 2018 dividend for an equity value of €105.5m. Based on fully diluted shares outstanding of 4.22m, our fair value corresponds to price target of €25 / share.

ECONOMIC PROFIT MODEL

in €'000	2018E	2019E	2020E	TV
EBITDA	9,747	18,709	21,417	21,631
Investment income	0	0	0	0
Tax Expense	-611	-1,395	-1,599	-1,599
NOPAT	**9,136**	**17,314**	**19,818**	**19,818**
Total assets	**186,696**	**298,002**	**385,747**	**385,747**
(-) Current liabilities	3,140	3,247	4,437	4,437
(+) Current financial debt	0	0	0	0
(-) Cash	10,472	9,783	8,377	8,377
(-) Deferred taxes	479	526	579	579
Capital employed (CE)	**172,605**	**284,445**	**372,353**	**372,353**
Average CE	122,877	228,525	328,399	328,399
ROCE	7.4%	7.6%	6.0%	6.0%
WACC	5.7%	5.7%	5.7%	5.7%
ROCE-WACC	1.8%	1.9%	0.4%	0.4%
Economic Profit	2,168	4,357	1,198	1,198
NPV	**2,146**	**4,080**	**1,062**	**22,959**
Fair value calculation				
Total return	**30,247**			
(+) NAV (2017)	75,807			
(-) Dividend	597			
Equity value	**105,457**			
Number of shares (000's, fully diluted)	4,219			
Fair value per share (€)	**25.00**			

COMPANY PROFILE

FCR specialises in the acquisition and optimisation of income generating properties in the German commercial real estate market with the aim of building a high yield portfolio. Unlike the larger residential and commercial landlords that populate the German stock markets, FCR does not target properties in Germany's metropolitan hubs. Its properties are principally located in select secondary locations (B & C cities), where yields remain relatively high and are spurred by better than suspected fundamentals and market dynamics.

The company also differentiates from the majors with its focus on retail assets (shopping and retails parks), whereas larger commercial players are currently focused on the office asset class. After a strong investment phase during the first nine months (€78m YTD), the FCR portfolio is now valued at €223m and includes 40 geographically diversified properties with 200,000 m² of lettable area.

Table 2: Key events in corporate history

2003	• Foundation of RMM 22 GmbH & Co. KG with headquarters in Munich, Germany
2004	• Start of operations • Change of name of RMM 22 GmbH & Co. KG to become FCR Immobilien & Vermögensverwaltungs GmbH & Co. KG
2013	• Resolution of the shareholders' meeting on the change of legal form of FCR Immobilien & Vermögensverwaltungs GmbH & Co. KG into FCR Immobilien AG and the relocation of the company's registered office from Krailling to Munich.
2014	• Transformation of the legal form of FCR Immobilien & Vermögensverwaltungs GmbH & Co. KG into FCR • Relocation of FCR headquarters from Krailling to Munich

Source: First Berlin Equity Research; FCR

Headquartered in Munich, Germany, FCR was launched in 2003 and floated its shares in the Open Market of the Frankfurt Stock Exchange on 7 November. FCR is now part of the Scale segment, which is tailored for SMEs (small to medium-sized enterprises). The company has issued corporate bonds totalling some €37m as of H1/18.

Management also plan to resume dividend payments this year—FCR paid out 19% of 2015 net income (NI)—and targets 20% of net income (NI) going forward. The company last paid out 19% of NI in 2015. On our 2018 numbers, this would result in DPS of €0.15 equal to a 0.8% dividend yield.

BUSINESS MODEL

FCR predominantly follows a classic buy and hold strategy to drive value creation and sustainable rental income (RI). The company also opportunistically rotates assets to recycle cash. This allows management to lock in profits when a property has been fully optimised and reinvest in new properties.

Looking beyond the Big 7… FCR targets commercial properties chiefly in the retail segment that harbour clear upside for value creation through active asset management. The company distinguishes itself from rivals with its regional focus. This is anchored by its concentration on so-called B & C cities, which offer a broader selection of opportunities that meet FCR's acquisition criteria, while the top 7 German metropolises continue to attract the bulk of large investor capital, and are thus driving up prices and adversely impacting yields.

… where competition is lower The company faces almost no competition from the major landlords, who require large portfolios to move the performance needle. However, the Berlin based Deutsche Konsum REIT AG and DEFAMA AG are also active on the rural and medium sized retail landscape. That said, FCR's network and experience in its targeted locations is not easily replicated and should help box out rivals over the near term. Properties are predominantly (97%) located in Germany with Nordrhein-Westfalen (NRW) making up the largest regional portion.

Table 3: Regional portfolio distribution

Region	Lettable area (in sqm)	% of portfolio
Niedersachsen	33,290	17%
Thüringen	42,753	21%
NRW	46,088	23%
Mecklenburg-Vorpommern	8,539	4%
Bayern	9,016	5%
Hessen	6,109	3%
Sachsen	6,787	3%
Brandenburg	8,084	4%
Sachsen-Anhalt	7,479	4%
Rheinland-Pfalz	1,290	1%
Schleswig-Holstein	2,074	1%
Baden-Württemberg	21,643	11%
International	6,849	3%
Total	**200,000**	**100%**

Source: First Berlin Equity Research; FCR

Strong anchor tenants make it work FCR follows the common blueprint among landlords of looking for properties that feature good economic demographics, solid structural shape, i.e. low CapEx needs, and attractive revisionary potential. Plus, the most common threads among FCR's properties is a strong anchor tenant located in a retail park in the central part of town. This renter is typically a discount grocer or other well branded supermarket chain.

Figure 1: Tenant structure

Anchor tenant (30 June 2018)	Share
Edeka	12%
Netto	7%
OBI	6%
HIT	5%
Norma	3%
Rossmann	3%
REWE	3%
Takko	3%
toom	2%
Aldi, Lidl, Penny, Fielmann, T. Philipps, Deichmann, KIK, Dän. Bettenlager, Fressnapf, XXXL, mister.lady, Reno	1 % each

Source: First Berlin Equity Research; FCR

Key tenants include well known and strong brands such as EDEKA, Netto and OBI, who offer good credit profiles and greater willingness to sign long term lease agreements, thanks to their well established and stable businesses. This tenant structure translates into good RI visibility and security for FCR.

Buy and hold… FCR generally looks for properties in the €2m - €5m range, which is often too small for institutional investors but too large for private landlords. The company uses a 12% yield hurdle to filter its pipeline allowing for both external and organic cash flow and NAVPS growth. Organic growth is achieved through like-for-like (LFL) rent and occupancy increases as FCR extracts embedded value from properties that were often previously mismanaged. Presently, the portfolio features annualised monthly rental income of €12.5m, a 17% vacancy rate, and a 4.5 year WALT.

FCR sources deals from a variety of sellers including banks, institutions, and private individuals. Thanks to its access to capital and experienced transaction team, the company's financial flexibility and quick reaction time to offers is on par with larger players. This agility is particularly advantageous in allowing FCR to acquire distressed properties or assets from liquidity strapped sellers. The in-house asset team also has a good track record in extracting the value from the often previously mismanaged properties.

… then sell high to rotate assets FCR looks to hold its properties between 3 – 7 years leading to a disposal rate of some 20% of the portfolio equal to 2 to 4 properties p.a. Depending on market conditions FCR is able to generate gains above book value equal to 1x – 3x net rent. The remaining cash net of the associated debt repayment is then recycled into equity for future acquisitions.

MARKET ENVIRONMENT

FCR is active in small towns with populations ranging from 15k – to 100k. Plus, the company focuses on retail, which fell out of favour with the majors a few years ago due to e-commerce risk.

What about the threat of e-commerce? In our view featured shops—particularly the discount grocers—are less vulnerable to the growth of digital retailing. Although some grocers are gearing up e-commerce offerings to meet home delivery demand, we believe digital cannibalism is more of a big city trend. In our view, the consumption behaviour of small town folks insulates the local chains from e-commerce expansion, because digital lifestyles are simply less prevalent outside the metropolises. Even in the US, where digital shopping is much more embraced, online food shopping accounts for < 2% of all grocery expenditures and most of this activity can be traced to urbanites.

Small towns are more prosperous than you might think Most of the FCR assets are located in small towns but that does not necessarily mean there is no economic backbone to support small towns. Checks suggest that size is not necessarily an indicator of a town's prosperity in Germany. The table below shows that only three of the German metropolises rank among the country's top GDP per capita cities.

Table 4: Attractive fundamental and market dynamics in B-cities

City		GDP/capita (€'000)
Wolfsburg	B-city	93
Frankfurt am Main	**A-city**	**83**
Schweinfurt	B-city	78
Ingolstadt	B-city	75
Regensburg	B-city	72
Düsseldorf	**A-city**	**67**
Ludwigshafen am Rhein	B-city	67
Erlangen	B-city	66
Stuttgart	**A-city**	**65**
Ulm	B-city	64
Coburg	B-city	64
Bonn	B-city	63
Aschaffenburg	B-city	59
Passau	B-city	55
Darmstadt	B-city	55
Koblenz	B-city	55
Wiesbaden	B-city	54
Mannheim	B-city	53

B-city dynamics
Large investors chasing assets in 7 largest German hubs
Only 3 of the largest cities ranked in the top ten of GDP per capita
Purchase price in German cities remains well under replacement cost
Better insulated from new build speculators focused on A-cities
Higher occupancy upside at the time of acquisition
B-cities draw less attention from the major real estate investors providing opportunites for smaller players with strong local networks

Source: Friedrich Ebert Stiftung; Institut der deutschen Wirtschaft Köln (IW)

We understand concerns of population contraction in small towns, particularly in the east with the migration of youth in search of big city lifestyles and opportunities. But checks on inhabitant statistics show a mixed picture and overall stable metrics. We conclude that population contraction will not translate into tenant risks for FCR over the mid-term, and believe the notion that the secondary locations are too risky, due to poor demographics, is somewhat overblown.

Commercial segment is strong and earlier in the cycle than residential Property stocks took a hit in early February in the wake of investor concerns over interest rates. As we wrote in the course of our sector coverage, the correction was unwarranted, particularly in the commercial space. Property stocks began to recover a few weeks later as sentiment improved. And several German property bellwethers such as Aroundtown, Grandcity Properties and TLG Immobilien marked all-time highs this summer.

In our view, German CRE continues to harbour better growth potential than residential RE where yields have been compressing for years. We regard the commercial sector as lagging the late cycle residential space—a view supported by higher yields offered by the former. Good market fundamentals also give us confidence in the sustainability of the current cycle and growth potential in 2018. The main considerations supporting our view are: (1) good growth potential compared to residential where yields are far less attractive; (2) persistent high demand for prime space fuelled by a robust job market and yield hungry investors; (3) limited alternative asset classes with comparable yields and income potential; (4) real estate yields that remain highly attractive over bond yields even after the recent moves; and (5) healthy balance sheets among the landlords with LTVs at comfortable levels meaning less funding risk in the system. Taking account of these factors, we see nothing from today's perspective that is a harbinger of a major correction.

FINANCIAL HISTORY AND OUTLOOK

Table 5: Six month results overview

	H1/18	H1/17	*variance*
Rental income	5,976	3,525	*70%*
Property disposal income	8,550	3,980	*115%*
Revenues	**14,526**	**7,505**	***94%***
Property OpEx	-2,371	-1,723	*38%*
Costs from buildings sold	-6,392	-2,187	*192%*
Opex	-1,862	-1,069	*74%*
EBITDA	**3,901**	**2,526**	***54%***
Margin	*27%*	*34%*	-
EBIT	**3,029**	**2,127**	***42%***
Margin	*21%*	*28%*	-
Net income	**1,062**	**781**	***36%***

Source: First Berlin Equity Research; FCR

Six month reporting featured portfolio growth and improved operating metrics. The company reported investment properties of €73m on the balance sheet corresponding to a 7% increase for the period. The pro-forma nine month value stood at €133m equal to a 94% YTD rise. For the six month period, FCR generated rental income of €6.0m from its assets and €8.5m in disposal income. Pro-forma annualised rental income now totals €13.2m versus €9.5m at year end 2017, and management indicated revisionary upside to €16.5m through optimisation. We estimate annualised rental income to reach €14.8m at the end of the year.

Our top line growth assumption is driven by rental income growth owing to both portfolio expansion and select disposal income as outlined in the table below. Our top line assumptions equate to a 55% revenue CAGR for 2018 – 2020.

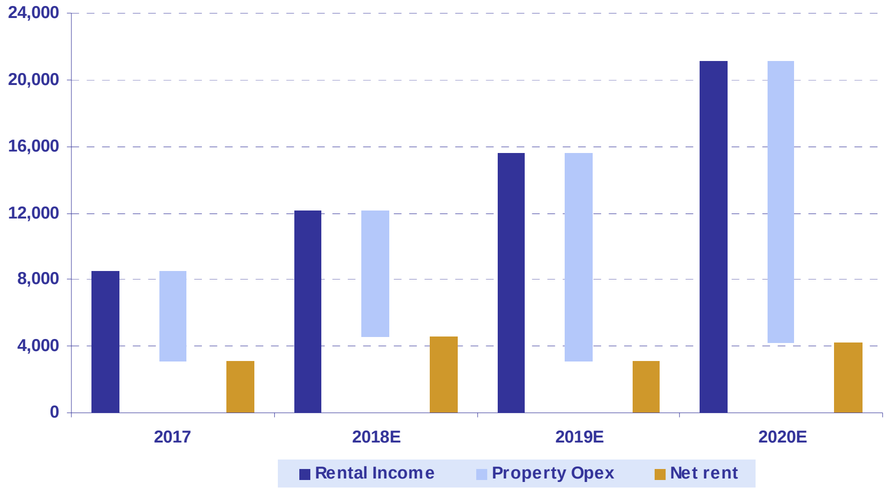
Table 6: Revenue and earnings forecasts

	2018E	2019E	2020E	*CAGR*
Rental income	12,139	15,617	21,115	*35%*
Property OpEx	-4,613	-3,123	-4,223	
Net rent	**7,526**	**12,493**	**16,892**	*46%*
Disposal income	21,010	27,500	40,000	
Building costs	-16,022	-16,500	-30,000	
Disposal gains	**4,988**	**11,000**	**10,000**	*57%*
Total revenue	**33,149**	**43,117**	**61,115**	***55%***
Gross profit	**12,514**	**23,493**	**26,892**	***50%***
Gross margin	*37.8%*	*54.5%*	*44.0%*	-
EBITDA	**9,818**	**18,709**	**21,417**	*64%*
Margin	*29.6%*	*43.4%*	*35.0%*	-

Source: First Berlin Equity Research estimates

We expect rental income to reach €12.1m in 2018 and climb to €21.1m in 2020 spurred by portfolio expansion and optimisation. The company aims for a 12% RI yield on the purchase price of new properties. We assumed this yield hurdle in our near term forecasts until we see contrary evidence.

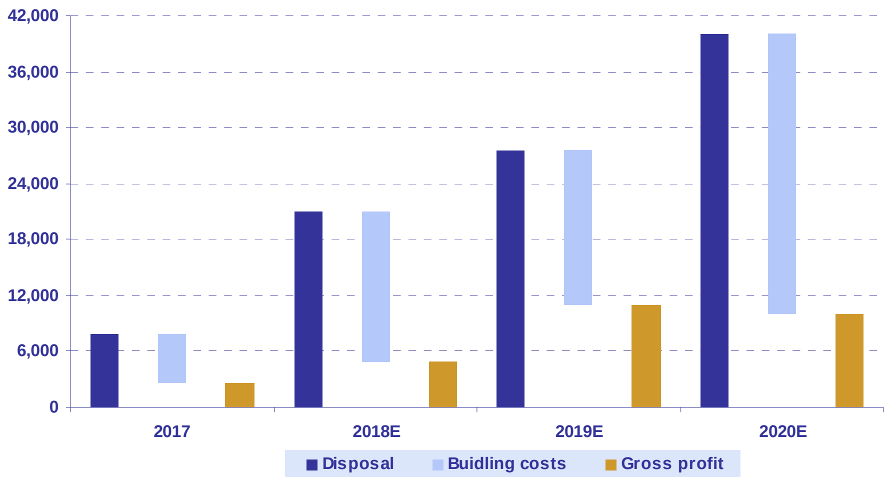
Figure 2: Rental income development (in EURk)



Source: First Berlin Equity Research estimates; FCR

The company disposed of assets for some €7.9m in 2017 and another €8.6 in the first six months of this year. We estimate disposal income of €21m for the full year with the figure rising to €40m in 2020 in line with the 20% disposal ratio policy pursued by management. The company targets 1x – 3x net rent as a gross profit as it assesses opportunities to sell mature assets.

Figure 3: Disposal income development (in EURk)



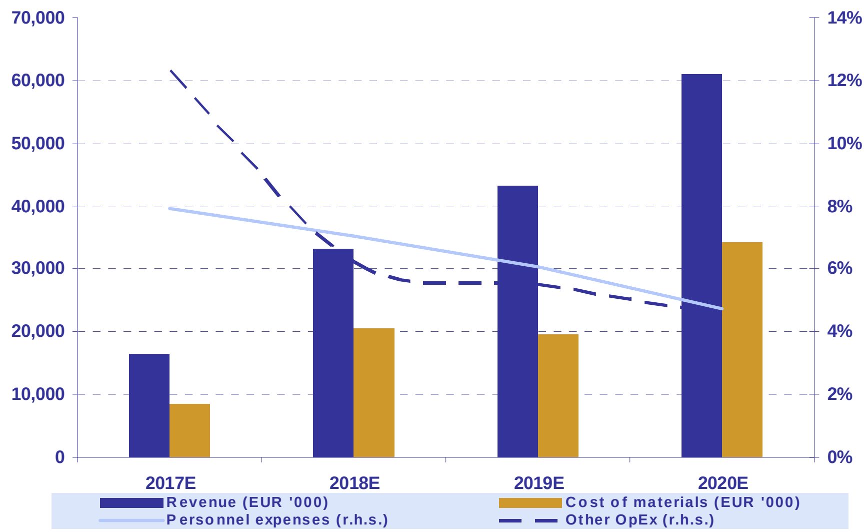
Source: First Berlin Equity Research estimates; FCR

Scalable structure allows for increasing profitability ratios We expect staffing expenses and other operating expenses to rise at a slower pace than portfolio growth, due to scaling effects. Personnel expenses climbed some 73% Y/Y in H1 as the company expanded its acquisition and asset management teams to accommodate recent and future growth. However, we expect staffing expenses to climb at a slower pace going forward and equate to 6.7% of the 2019 topline. The company will also book some €1.7m in other operating income this year occasioned by one-off gains associated with a legacy rental contract.

Six month EBITDA totalled €3.9m vs €2.5m in the prior year period (+56%), while H1/18 net income totalled €1.1m (+36%). We forecast a jump in EBITDA margin in 2019 to 43% owing to the mix of rental income vs disposals. Financing expenses reflect expected debt loads associated with portfolio growth. We model a bank debt financing ratio of 80% with a 2.5%

interest rate assumption for future deals. Our net income target is €3.0m in 2018 followed by €7.9m the following year. The sharp increase in earnings reflects the high amount of acquisitions in 2018 that will have their initial full impact on RI in 2019 to as well as the strong rise in disposal income.

Figure 4: Operating profit development



Source: First Berlin Equity Research

Balance sheet driven by portfolio and NAV growth In its 9M operational update, management hinted at further deals of some €30m in Q4, which would push GAV (gross asset value) north of €250m by the end of the year. As of the nine month mark, FCR had acquired 13 single properties and one portfolio with a volume of €102m. We expect the company to close further deals in Q4 and the number of properties—net of disposals—to climb to 52 equal to an investment volume of some €120m for the full year.

Table 7: Pro-forma portfolio KPIs as of 9M operational update

Properties	44	Market value of portfolio	€222.7m
Actual net rental income p.a.	€12.5m	Property space	325k m²
Potential net rental income p.a.	€16.5m	Lettable space	200k m²
Actual net rental yield p.a.	11.7%	Occupancy	83%
Potential net rental yield p.a.	14.8%	WAULT	5.3 years

Source: First Berlin Equity Research; FCR

We assume FCR will keep up its acquisition pace next year assuming access to adequate financing and a favourable market environment. Given the current market environment and €100m pipeline, we judge this a realistic assumption. We look for GAV to increase to €386m in 2019.

Table 8: Balance sheet highlights

All figures in EUR '000	H1/18	2017	*variance*
Cash and liquid assets	15,178	4,946	*207%*
Total assets	95,975	80,147	*20%*
Investment property¹	72,514	69,109	*5%*
Shareholders' equity	7,968	6,906	*15%*
Total debt (short- and long-term)	83,712	70,213	*19%*
Net debt	68,534	65,267	*5%*
Loan-to-Value²	56.0%	46.0%	-
Net LTV²	45.9%	42.8%	-

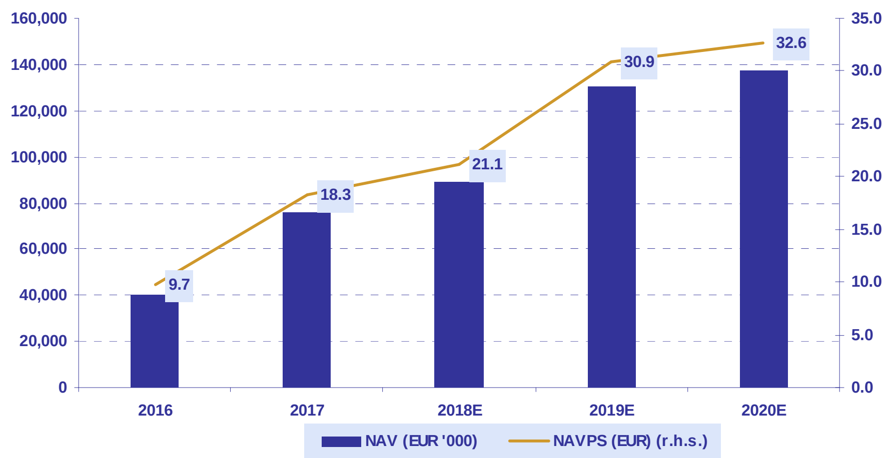
¹ balance sheet totals according to HGB; ² calculated on market value

Source: First Berlin Equity Research; FCR

The debt load features a combination of bank debt and corporate debt from straight bond issuances. New acquisitions are financed with a 80:20 percent debt to equity ratio. We expect this structure to persist in the future although the recent listing will open up opportunities to boost the equity ratio, which stood at a modest 6.3% as of 30 June. FCR recently issued a 6% straight bond for €25m with a February 2023 maturity. A higher equity ratio would also be welcomed by lenders and allow for better financing terms for future deals. Working capital needs are moderate and do not have a major impact on the balance sheet.

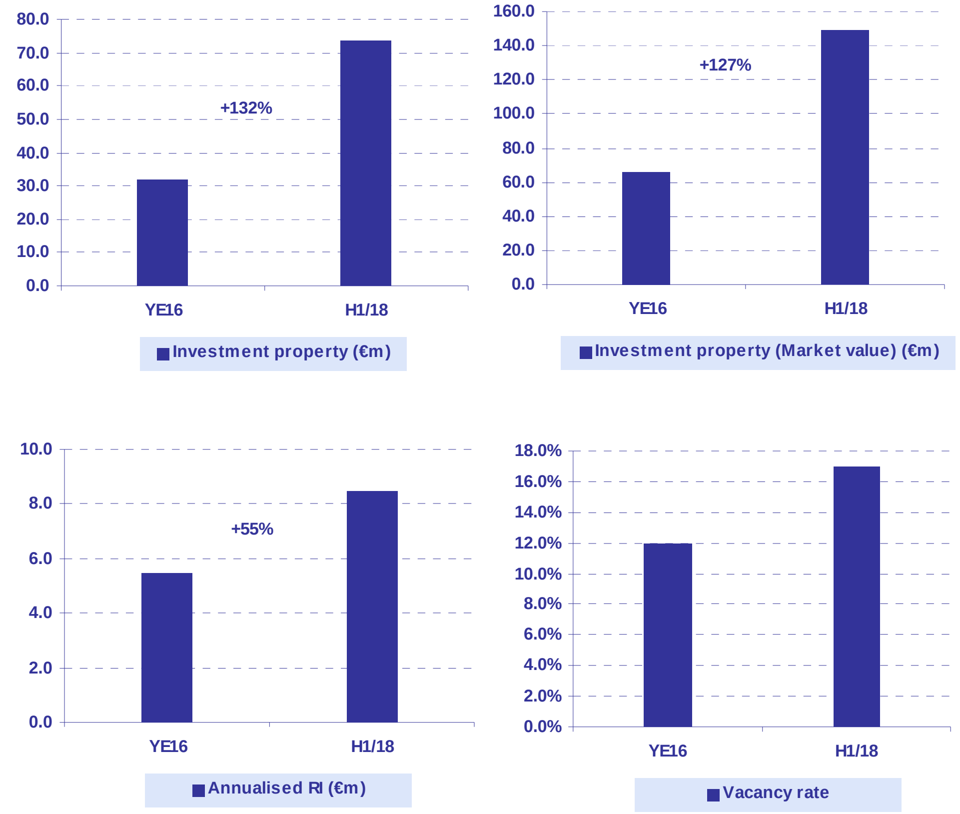
As of 30 June, NAV totalled €75m (€18.1 / share) compared to €75.8m (€18.3 /share) at year end 2017. The dip is traced to provisions made for interest of issued bonds. On a nine month basis, pro-forma NAV was up 13% YTD to €85.6m (NAVPS: €20.3, +11%) driven predominantly by the high growth pace and portfolio value extraction. We look for our growth assumptions to translate into NAVPS of €21.2 to exit 2018, and model a 20% CAGR for 2018 – 2020. We note that NAV includes the hidden reserves of the market value according to German GAAP (HGB).

Figure 5: Net asset value development



Source: First Berlin Equity Research; FCR

Figure 6: Portfolio KPI development as of H1/18 reporting



Source: First Berlin Equity Research; FCR

EXECUTIVE BOARD

CEO

Falk Raudies joined FCR in January 2004 and is currently the sole C-level member. He orchestrates property due diligence for the pipeline and handles deal negotiations. We believe he is instrumental in the company's ability to secure the high yield assets that populate its portfolio. Mr Raudies has an IT background and previously served 19 years as CEO of the Munich-based IT infrastructure specialist 3KV GmbH. Since 2009, Mr Raudies has been the chairman of the supervisory board of RAT Asset & Trading.

SUPERVISORY BOARD

Board Chairman

Professor Dr Franz-Joseph Busse studied business administration at the universities of Würzburg, Grenoble and Munich. He later received his doctorate in business administration from Ludwig – Maximilians University in Munich. Dr Busse has taught various business and finance courses at Munich's University of Applied Sciences since 1982. He is also the founder of Infinanz GmbH based in Munich.

Board Member

Arwed Fischer brings a wealth of experience from his previous executive posts at several SDAX and MDAX companies. Previously, he served as CFO of Patrizia Immobilien AG from 2008 to 2015. He is currently a member of five different supervisory boards.

Board Member

Frank Fleschenberg has been an executive member of Gesellschaft für Grundbesitz AG in Leipzig since 2006. He has been involved in real estate and financing since 1986. Following a brief football career, he was the manager of FC Nürnberg and later FC Saarbrücken. Mr Fleschenberg studied business administration at the University of Essen and law at the University of Düsseldorf.

SHAREHOLDERS & STOCK INFORMATION

Stock Information	
ISIN	DE000A1YC913
WKN	A1YC91
Bloomberg ticker	FC9 GR
No. of issued shares	4,219,000
Transparency Standard	Entry Standard
Country	Germany
Sector	Real Estate

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
RAT Asset & Trading AG	79.8%
FAMe Invest	9.2%
Free Float	11.0%

Source: FCR Immobilien AG

INCOME STATEMENT

All figures in EUR '000	2016	2017	2018E	2019E	2020E
Rental income	5,729	8,490	12,139	15,617	21,115
Property disposal income	6,400	7,900	21,010	27,500	40,000
Revenues	**12,129**	**16,390**	**33,149**	**43,117**	**61,115**
Property OpEx	-3,000	-3,067	-4,613	-3,123	-4,223
Costs from buildings sold	-4,511	-5,300	-16,022	-16,500	-30,000
Other operating income	273	206	1,700	200	200
Personnel expenses	-739	-1,297	-2,335	-2,615	-2,902
Other operating expenses	-1,617	-2,020	-2,060	-2,369	-2,772
Depreciation & amortisation	-775	-1,192	-2,145	-2,273	-2,610
Operating income (EBIT)	**2,333**	**3,735**	**7,674**	**16,436**	**18,807**
Net financial result	-1,484	-2,457	-4,015	-7,137	-8,145
Other financial expenses	0	0	0	0	0
Pre-tax income (EBT)	**849**	**1,278**	**3,659**	**9,299**	**10,662**
Income taxes	-408	-304	-622	-1,395	-1,599
Net income / loss	**441**	**974**	**3,037**	**7,904**	**9,063**
Minority interests	-64	0	0	0	0
Net income after minorities	**505**	**974**	**3,037**	**7,904**	**9,063**
Basic EPS (in €)	**0.12**	**0.23**	**0.73**	**1.87**	**2.15**
Diluted EPS (in €)	**0.12**	**0.23**	**0.73**	**1.87**	**2.15**
EBITDA	**3,020**	**4,872**	**9,818**	**18,709**	**21,417**
Ratios					
EBITDA margin	24.9%	29.7%	29.6%	43.4%	35.0%
EBIT margin	19.2%	22.8%	23.1%	38.1%	30.8%
Tax rate	28.9%	23.6%	17.0%	15.0%	15.0%
Expenses as % of revenues					
Personnel expenses	6.1%	7.9%	7.0%	6.1%	4.7%
Other operating expenses	13.3%	12.3%	6.2%	5.5%	4.5%
Y-Y Growth					
Revenues	23.8%	35.1%	102.2%	30.1%	41.7%
EBITDA	-1.8%	61.3%	101.5%	90.6%	14.5%
EBIT	-23.1%	60.1%	105.5%	114.2%	14.4%
Net income/ loss	-67.5%	120.9%	211.8%	160.3%	14.7%
Operating income[1]	**444**	**1,135**	**2,686**	**5,436**	**8,807**
Depreciation & amortisation	687	1,137	2,144	2,273	2,610
Capital gains, property revaluations	0	0	0	0	0
Result from disposals	1,889	2,600	4,988	11,000	10,000
Adjusted EBITDA	**3,020**	**4,872**	**9,818**	**18,709**	**21,417**
Financial expense	-1,484	-2,457	-4,015	-7,137	-8,145
Tax	-245	-302	-622	-1,395	-1,599
FFO 2	**1,291**	**2,113**	**5,181**	**10,177**	**11,673**
FFOPS 2 (€)	0.31	0.51	1.24	2.41	2.77

[1] adjusted for disposal income

BALANCE SHEET

All figures in EUR '000	2016	2017	2018E	2019E	2020E
Assets					
Current assets, total	**12,517**	**8,309**	**14,351**	**14,200**	**14,250**
Cash and cash equivalents	6,312	4,946	10,528	9,833	8,427
Invesntories	238	248	622	591	1,031
Trade receivables	5,239	1,758	1,816	2,363	3,349
Other current assets	728	1,357	1,385	1,414	1,443
Non-current assets, total	**33,551**	**71,837**	**172,401**	**283,844**	**371,539**
Property, plant & equipment	42	338	381	436	515
Investment property	31,573	62,758	162,181	273,525	361,080
Other LT assets	1,936	8,741	9,839	9,882	9,943
Total assets	**46,068**	**80,146**	**186,752**	**298,044**	**385,789**
Shareholders' equity & debt					
Current liabilities, total	**1,155**	**1,615**	**3,143**	**3,247**	**4,437**
Short-term debt	0	0	0	0	0
Trade payables	449	592	1,413	1,344	2,344
Provisions & current liabilities	706	1,023	1,730	1,903	2,093
Long-term liabilities, total	**38,983**	**71,627**	**172,667**	**276,559**	**355,632**
Bonds	9,311	20,676	45,676	62,000	75,000
Long-term debt	28,187	49,537	125,514	213,014	279,014
Other liabilities	679	979	999	1,019	1,039
Deferred tax liabilities	806	435	479	526	579
Shareholders' equity	**5,930**	**6,904**	**10,941**	**18,238**	**25,720**
Minority interests	0	0	0	0	0
Total equity	**5,930**	**6,904**	**10,941**	**18,238**	**25,720**
Total consolidated equity and debt	**46,068**	**80,146**	**186,752**	**298,044**	**385,789**
Ratios					
NAV	40,305	75,807	89,074	130,383	137,655
NAVPS (€)	9.7	18.3	21.1	30.9	32.6
Net debt	31,186	65,267	160,662	265,181	345,587
Interest cover (ICR)	1.9x	1.6x	2.4x	2.6x	2.6x
Equity ratio	12.9%	8.6%	5.9%	6.1%	6.7%
Return on equity (ROE)	7.4%	14.1%	27.8%	43.3%	35.2%
Loan-to-value (LTV)	56.9%	46.0%	67.4%	71.3%	74.8%
Net LTV	47.3%	42.8%	63.3%	68.8%	73.1%

CASH FLOW STATEMENT

All figures in EUR '000	2016	2017	2018E	2019E	2020E
Net income	**442**	**974**	**3,037**	**7,904**	**9,063**
Proceeds from disposal of trading properties	-1,920	-4,642	-5,362	-10,970	-10,440
Depreciation & amortisation	687	1,137	2,144	2,273	2,610
Net financial result	1,484	2,457	4,015	7,137	8,145
Tax result	245	-370	622	1,395	1,599
Operating cash flow	**938**	**-444**	**4,456**	**7,740**	**10,977**
Trade and other receivables	-4,713	2,854	-87	-575	-1,016
Trade & other payables	995	-37	821	-69	1,000
Provisions and other liabilities	177	317	770	241	263
Tax paid	0	0	-622	-1,395	-1,599
Net operating cash flow	**-2,603**	**2,690**	**5,339**	**5,941**	**9,626**
Investment in fixed/intangible assets	-38	-10	-133	-172	-244
Outflows for investment property	-15,145	-41,705	-117,500	-130,000	-120,000
Inflows from asset disposals	6,400	7,901	21,010	27,500	40,000
Outflows for financial assets	-638	-978	-1,097	-43	-61
Interest income	86	644	0	0	0
Cash flow from investing	**-9,335**	**-34,148**	**-97,720**	**-102,716**	**-80,306**
Debt financing, net	13,159	33,192	100,977	103,824	79,000
Equity financing, net	2,963	0	1,000	0	0
Interest paid	-1,570	-3,100	-4,015	-7,137	-8,145
Dividends paid	-3,259	0	0	-607	-1,581
Cash flow from financing	**11,293**	**30,092**	**97,962**	**96,079**	**69,274**
Net cash flows	**-645**	**-1,366**	**5,582**	**-695**	**-1,406**
Cash, start of the year	6,957	6,312	4,946	10,528	9,833
Cash, end of the year	**6,312**	**4,946**	**10,528**	**9,833**	**8,427**
FFO 2	**1,291**	**2,113**	**5,181**	**10,177**	**11,673**
FFOPS 2 (€)	0.31	0.51	1.24	2.41	2.77
Y-Y Growth					
FFO 2	n.a.	64%	145%	96%	15%
FFOPS 2	n.a.	64%	143%	95%	15%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	12 November 2018	€ 18.79	Buy	€ 25.00

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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:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy[1]	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

[1] The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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

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