

FCR Immobilien AG

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

2018 &
 Q1/19
 Results

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 26.00
 44.4%
 High

Q1 PICKS UP WHERE GOOD 2018 MOMENTUM LEFT OFF

Recently reported Q1 KPIs showed that 2019 is off to an excellent start. Thanks to strong disposal income, FFO 2 reached €4.2m in Q1, which already tops the 2018 result (€4.1m). The company now controls +€260m in commercial properties, while NAV stands at €94m (YE €89m). In April, FCR launched a new corporate bond netting proceeds of €13.6m thus far to finance acquisition growth, and a €0.35 dividend for 2018 was approved by the recent AGM. The good start to Q1, a full pipeline and ample financing give us a high degree of confidence in our near-term forecasts. We increase our price target to €26 (old: €25) after rolling our model forward. Our rating remains Buy.

Good business environment in Q1 FCR mixes a classic buy and hold concept with opportunistic asset rotation applied to retail properties throughout Germany's secondary cities. As part of its cash recycling strategy, the company sold a retail centre in Salzgitter in Q1 spurring strong disposal gains. Management also noted the sale of two other assets post Q1 reporting (table 1 overleaf). Meanwhile six new properties have been acquired for a total of ~€20m YTD pushing gross asset value (GAV) above €260m. Based on the good business performance and strong pipeline (€69m), we believe the company is well on track to hit our 2019 targets. We look for FFOPS 2 and NAVPS growth of 119% and 38% respectively.

Corporate bond replenishing the financial coffers FCR issued a new corporate bond in April to finance acquisition growth and fulfil their 20% equity target for purchased properties. The bond features a 5.25% coupon and matures in April 2023. The company plans to raise up to €30m and has thus far secured close to €14m. This puts the bond on a similar trajectory as last year's corporate debt issuance, which was fully placed by mid-August. We also expect FCR to kick off the second phase of its capital increase in Q3 to boost the equity ratio and finance growth. The initial tranche of the cap hike was completed in Q1 and netted proceeds of some €3.3m. This should give management good flexibility to execute on its full pipeline (€69m). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	12.13	16.39	37.18	43.55	63.16	83.39
Y-o-y growth	n.a.	35.1%	126.9%	17.1%	45.0%	32.0%
EBIT (€m)	2.33	3.74	7.43	13.71	16.77	23.96
Net income (€m)	0.44	0.97	1.42	5.53	5.00	8.87
EPS (diluted) (€)	0.12	0.23	0.34	1.28	1.14	2.01
NAV (€m)	40.31	75.81	89.25	128.92	133.13	162.51
NAVPS (€)	9.72	18.28	21.15	29.26	30.22	36.89
DPS (€m)	0.08	0.00	0.35	0.83	0.74	1.31
FFO 2 (€m)	1.29	2.11	4.05	9.13	9.59	14.09
Liquid assets (€m)	6.31	4.95	3.11	5.49	7.02	13.17

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 commercial retail properties primarily located in secondary markets throughout Germany.

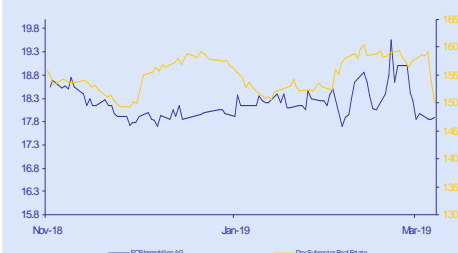
MARKET DATA

As of 10 Jun 2019

Closing Price	€ 18.00
Shares outstanding	4.22m
Market Capitalisation	€ 75.96m
52-week Range	€ 16.70 / 19.55
Avg. Volume (12 Months)	1,036

Multiples	2018	2019E	2020E
P/FFO 2	35.3	18.6	8.5
P/NAV	0.9	0.6	0.6
FFO 2 Yield	5.4%	11.8%	12.1%
Div. Yield	1.9%	4.6%	4.1%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2018

Liquid Assets	€ 3.11m
Current Assets	€ 11.16m
NAV	€ 89.25m
Total Assets	€ 184.32m
Current Liabilities	€ 3.65m
Shareholders' Equity	€ 9.04m

SHAREHOLDERS

RAT Asset & Trading AG	68.2%
FAME Invest	8.8%
Free Float	23.0%



REPORTING SUPPORTIVE OF POSITIVE VIEWS

Back to back full year results and Q1 reporting showed exceptionally strong growth. FCR reports on a half year basis but released first quarter KPI's that put the company well on track to hit our full year targets of +17% rental and operating income growth and an +89% annualised increase in EBITDA to >€19m.

Good momentum in 2018 extends into Q1 The company reported preliminary Q1 EBIT of €5.9m and pre-tax income of €4.5m. The latter already tops the 2018 EBT result (€3.0m). FFO 2 amounted to €4.2m in first three months and likewise beat the prior full year result (€4.0m). No comparative figures were published for Q1 2018.

Table 1: YTD disposals and KPI's

Asset	Profit	Holding period	IRR	ROE
	€m	months	%	%
Salzgitter	5.5	53	74	567
Hennef	3.3	30	144	426
Würzburg	0.7	21	38	204
Totals	9.5	35	85	399

Source: First Berlin Equity Research; FCR Immobilien

The good performance stems chiefly from the disposal of the Salzgitter retail centre as part of FCR's cash recycling strategy. FCR noted post-reporting disposals of the Hennef and Würzburg properties, while the disposal of three other assets is pending.

FULL YEAR RESULTS VALIDATE STRATEGY

Full year results showed impressive annualised growth. Rental and operating income rose strongly (+127%) to €37m, while EBITDA also more than doubled to €10m. Both results were in line with our forecasts. The performance was driven by the commercial portfolio, which spurred good rental income and disposal growth. Rental income rose 88% Y/Y to €16m while disposal income climbed ~170% on an annualised basis to €21m.

In our view, the strong results validate FCR's approach of disposing of assets after a +20 month holding period to recycle cash.

Table 2: 2018 results vs forecasts and prior year

€ '000	2018	2018E	variance	2017	variance
Revenue	37,185	36,939	0.7%	16,390	126.9%
EBITDA	10,060	10,152	-0.9%	4,872	106.5%
Margin (%)	27.1%	27.5%	-	29.7%	-
FFO 2	4,049	5,170	-21.7%	2,113	91.6%
FFOPS 2 (€)	0.97	1.24	-21.7%	0.51	90.0%

Source: First Berlin Equity Research; FCR Immobilien

FFOPS 2 nearly doubled on an annualised basis to €0.97. The variation in our FFOPS 2 forecast to the reported result is relates to "other taxes" of €-0.9m stemming from an accounting change in the profit and loss statement. We have adopted this switch in our revised estimates.

**Table 3: Balance sheet developments**

All figures in EUR '000	2018	2017	variance
Cash and liquid assets	3,111	4,946	-37%
Total assets	184,319	80,147	130%
Investment property ¹	163,214	69,109	136%
Shareholders' equity	9,038	6,906	31%
Equity ratio	4.9%	8.6%	-
Total debt (short- and long-term)	157,804	70,213	125%
Net debt	154,693	65,267	137%
Loan-to-Value ²	61.8%	46.0%	-
Net LTV ²	60.6%	42.8%	-

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

Source: First Berlin Equity Research; FCR Immobilien

Financial structure provides ample flexibility FCR reported cash and liquid assets of €3.1m for the period ended 31 December compared to €4.9m at the end of Q4/17, while net debt stood at €155m vs €65m at the end of 2017. The sharp rise in net debt owes to the 80% debt component on acquisitions made last year.

The debt structure had an LTV of 62% at YE, and the interest coverage ratio (ICR) climbed to 2.1x vs 1.6x in the prior year. The company recently agreed to maintain an ICR of > 1.0x as part of its latest bond issuance.

In April, FCR issued a Series E corporate bond with a five year maturity and 5.25% coupon to support its growth strategy. Thus far the company has raised ~€14m, and we expect the bond to be fully subscribed (€30m) by the fall. The debt structure now includes some €60m in corporate debt giving FCR a balanced debt portfolio. The next sizable (>€15m) maturity is in October 2022.

We also expect FCR to kick off the second phase of its capital increase in Q3 to boost the equity ratio and finance growth. Assuming a fully subscribed bond, we believe the company has ample financial firepower to execute on its deal pipeline.



Portfolio tops €255m; NAVPS climbs 16% Y/Y Thanks to some €100m acquisitions in 2018, GAV reached €255m including hidden reserves according to German GAAP. Based on the €163m book value, the net rent yield was 9%. This figure has edged 9.2% higher YTD. Meanwhile, NAV increased to €89m as of YE18 and was recently reported at €94m following the recent transactions.

Figure 1: Development of key performance indicators





LOOKING AHEAD

Our top line growth assumption is driven by rental income growth owing to both portfolio expansion and income from disposal of select assets as outlined in the table below. Our top line assumptions equate to a 31% revenue CAGR for 2019 – 2021.

Table 4: Revenue and EBITDA forecasts

	2019E	2020E	2021E	CAGR
Rental income	16,053	23,162	29,087	22%
Property OpEx	-3,211	-4,632	-5,817	
Net rent	12,843	18,530	23,269	76%
Disposal income	27,500	40,000	54,300	
Building costs	-16,500	-30,000	-40,725	
Disposal gains	11,000	10,000	13,575	29%
Total revenue	43,553	63,162	83,387	31%
EBITDA	17,310	21,365	29,190	43%
Margin	39.7%	33.8%	35.0%	-

Source: First Berlin Equity Research estimates

We have updated our forecasts to reflect the 2018 results, the updated pipeline and recent transactions. We now expect the company to ramp up staffing further to facilitate the expected growth, which accounts for the dip in 2019 EBITDA. For 2020, we have increased our top line figure to account for higher rental income, but this is largely offset by higher staffing costs.

Table 5: Changes to forecasts and price target

	old	new	revision	upside	dividend yield	
Price target (€)	25.0	26.0	4.0%	44.4%	4.6%	
All figures in € '000		2019E			2020E	
	old	new	revision	old	new	revision
Revenue	43,117	43,553	1.0%	61,103	63,162	3.4%
EBITDA	18,709	17,310	-7.5%	21,408	21,365	-0.2%
Margin (%)	43.4%	39.7%	-	35.0%	33.8%	-
FFO 2	10,177	9,129	-10.3%	11,668	9,595	-17.8%
FFOPS 2 (€)	2.36	2.12	-10.3%	2.65	2.18	-17.8%

Source: First Berlin Equity Research estimates

The lower FFO 2 forecasts stem chiefly from a change in accounting. Property taxes are now included in the “other tax result” line item after previously residing in other operating expenses (OpEx). We have adopted the shift into our forecasts. Our new 2021 forecasts (table 4) assume the company will stick to its strategy of selling optimised properties after a >20 month holding period.

Table 6: Income distribution assumptions

	2019-2021E	Share (%)
Landlord business	54,642	61.2%
Profit from disposals	34,575	38.8%
Income from investments	0	0.0%
Total	89,217	100.0%

Source: First Berlin Equity Research estimates



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 4. We have rolled our model one year forward to include maiden 2021 estimates. This results in a new price target of €26 (old: €25). We expect 2021 to be a strong year based on deals already signed and a pipeline of some €180m—including some €69m in the advanced stages with exclusivity. We expect these deals to spur strong rental and disposal income.

ECONOMIC PROFIT MODEL

in €'000	2019E	2020E	2021E	TV
EBITDA	17,310	21,365	29,190	29,628
Investment income	0	0	0	0
Tax Expense	-1,745	-1,580	-2,800	-2,842
NOPAT	15,565	19,785	26,391	26,786
Total assets	298,407	387,326	469,547	469,547
(-) Current liabilities	2,713	3,871	4,837	4,837
(+) Current financial debt	0	0	0	0
(-) Cash	5,492	7,022	13,167	13,167
(-) Deferred taxes	851	936	1,030	1,030
Capital employed (CE)	289,351	375,497	450,513	450,513
Average CE	233,070	332,424	413,005	450,513
ROCE	6.7%	6.0%	6.4%	5.9%
WACC	5.7%	5.7%	5.7%	5.7%
ROCE-WACC	1.0%	0.3%	0.7%	0.2%
Economic Profit	2,280	837	2,849	1,107
NPV	2,208	767	2,470	20,623
Fair value calculation				
Total return	26,067			
(+) NAV (2018)	89,254			
(-) Dividend	925			
Equity value	114,396			
Number of shares (000's, fully diluted)	4,406			
Fair value per share (€)	26.00			



INCOME STATEMENT

All figures in EUR '000	2016	2017	2018	2019E	2020E	2021E
Rental income	5,729	8,490	15,933	16,053	23,162	29,087
Property disposal income	6,400	7,900	21,252	27,500	40,000	54,300
Revenues	12,129	16,390	37,185	43,553	63,162	83,387
Property OpEx	-3,000	-5,108	-4,920	-3,211	-4,632	-5,817
Costs from buildings sold	-4,511	-3,259	-16,078	-16,500	-30,000	-40,725
Other operating income	273	206	374	200	200	200
Personnel expenses	-739	-1,297	-3,321	-3,587	-4,125	-4,517
Other operating expenses	-1,617	-2,020	-3,054	-3,146	-3,240	-3,338
Depreciation & amortisation	-775	-1,192	-2,653	-3,602	-4,593	-5,229
Operating income (EBIT)	2,333	3,735	7,434	13,708	16,772	23,961
Net financial result	-1,484	-2,457	-4,412	-6,436	-10,190	-12,296
Other financial expenses	0	0	-44	0	0	0
Pre-tax income (EBT)	849	1,278	2,978	7,272	6,582	11,665
Income taxes	-408	-304	-1,555	-1,745	-1,580	-2,800
Net income / loss	441	974	1,423	5,527	5,002	8,866
Minority interests	-64	0	0	0	0	0
Net income after minorities	505	974	1,423	5,527	5,002	8,866
Basic EPS (in €)	0.12	0.23	0.34	1.28	1.14	2.01
Diluted EPS (in €)	0.12	0.23	0.34	1.28	1.14	2.01
EBITDA	3,020	4,872	10,060	17,310	21,365	29,190
Ratios						
EBITDA margin	24.9%	29.7%	27.1%	39.7%	33.8%	35.0%
EBIT margin	19.2%	22.8%	20.0%	31.5%	26.6%	28.7%
Tax rate	28.9%	23.6%	22.7%	15.0%	15.0%	15.0%
Expenses as % of revenues						
Personnel expenses	6.1%	7.9%	8.9%	8.2%	6.5%	5.4%
Other operating expenses	13.3%	12.3%	8.2%	7.2%	5.1%	4.0%
Y-Y Growth						
Revenues	23.8%	35.1%	126.9%	17.1%	45.0%	32.0%
EBITDA	-1.8%	61.3%	106.5%	72.1%	23.4%	36.6%
EBIT	-23.1%	60.1%	99.0%	84.4%	22.4%	42.9%
Net income/ loss	-67.5%	120.9%	46.1%	288.4%	-9.5%	77.2%
Operating income¹	444	-906	2,260	2,708	6,772	10,386
Depreciation & amortisation	687	1,137	2,626	3,602	4,593	5,229
Capital gains, property revaluations	0	0	0	0	0	0
Result from disposals	1,889	4,641	5,174	11,000	10,000	13,575
Adjusted EBITDA	3,020	4,872	10,060	17,310	21,365	29,190
Financial expense	-1,484	-2,457	-4,456	-6,436	-10,190	-12,296
Tax	-245	-302	-1,555	-1,745	-1,580	-2,800
FFO 2	1,291	2,113	4,049	9,129	9,595	14,095
FFOPS 2 (€)	0.31	0.51	0.97	2.12	2.18	3.20

¹ adjusted for disposal income



BALANCE SHEET

All figures in EUR '000	2016	2017	2018	2019E	2020E	2021E
Assets						
Current assets, total	12,517	8,309	11,160	15,132	18,329	26,086
Cash and cash equivalents	6,312	4,946	3,111	5,492	7,022	13,167
Inventories	238	248	340	594	1,044	1,403
Trade receivables	5,239	1,758	1,187	2,386	3,461	4,569
Other current assets	728	1,357	6,521	6,660	6,802	6,947
Non-current assets, total	33,551	71,837	173,159	283,274	368,998	443,460
Property, plant & equipment	42	338	504	560	642	749
Investment property	31,573	62,758	163,214	273,230	358,808	433,080
Other LT assets	1,936	8,741	9,441	9,485	9,548	9,631
Total assets	46,068	80,146	184,319	298,407	387,326	469,547
Shareholders' equity & debt						
Current liabilities, total	1,155	1,615	3,646	2,713	3,871	4,837
Short-term debt	0	0	0	0	0	0
Trade payables	449	592	2,407	1,350	2,372	3,188
Provisions & current liabilities	706	1,023	1,239	1,363	1,499	1,649
Long-term liabilities, total	38,983	71,627	171,635	278,797	365,149	440,789
Bonds	9,311	20,676	45,676	65,000	85,000	105,000
Long-term debt	28,187	49,537	112,128	199,628	265,628	320,903
Other liabilities	679	979	13,058	13,319	13,585	13,857
Deferred tax liabilities	806	435	774	851	936	1,030
Shareholders' equity	5,930	6,904	9,038	16,897	18,307	23,921
Minority interests	0	0	0	0	0	0
Total equity	5,930	6,904	9,038	16,897	18,307	23,921
Total consolidated equity and debt	46,068	80,146	184,319	298,407	387,326	469,547
Ratios						
NAV	40,305	75,807	89,254	128,921	133,125	162,506
NAVPS (€)	9.7	18.3	21.2	29.3	30.2	36.9
Net debt	31,186	65,267	154,693	259,136	343,606	412,736
Interest cover (ICR)	1.9x	1.6x	2.1x	2.7x	2.1x	2.4x
Equity ratio	12.9%	8.6%	4.9%	5.7%	4.7%	5.1%
Return on equity (ROE)	7.4%	14.1%	15.7%	32.7%	27.3%	37.1%
Loan-to-value (LTV)	56.9%	46.0%	61.8%	68.7%	74.0%	74.5%
Net LTV	47.3%	42.8%	60.6%	67.3%	72.5%	72.2%



CASH FLOW STATEMENT

All figures in EUR '000	2016	2017	2018	2019E	2020E	2021E
Net income	442	974	1,423	5,527	5,002	8,866
Proceeds from disposal of trading properties	-1,920	-4,642	-5,174	-11,254	-10,450	-13,934
Depreciation & amortisation	687	1,137	2,626	3,602	4,593	5,229
Net financial result	1,484	2,457	4,412	6,436	10,190	12,296
Tax result	245	-370	675	1,745	1,580	2,800
Operating cash flow	938	-444	3,962	6,056	10,915	15,256
Trade and other receivables	-4,713	2,854	-3,829	-1,338	-1,216	-1,253
Trade & other payables	995	-37	10,852	-1,056	1,022	816
Provisions and other liabilities	177	317	554	462	488	515
Tax paid	0	0	-203	-1,745	-1,580	-2,800
Net operating cash flow	-2,603	2,690	11,336	2,379	9,628	12,534
Investment in fixed/intangible assets	-38	-10	-166	-174	-253	-334
Outflows for investment property	-15,145	-41,705	-118,569	-130,000	-120,000	-120,000
Inflows from asset disposals	6,400	7,901	21,252	27,500	40,000	54,300
Outflows for financial assets	-638	-978	-2,271	-44	-63	-83
Interest income	86	644	427	0	0	0
Cash flow from investing	-9,335	-34,148	-99,327	-102,718	-80,316	-66,117
Debt financing, net	13,159	33,192	87,591	106,824	86,000	75,275
Equity financing, net	2,963	0	3,256	3,256	0	0
Interest paid	-1,570	-3,100	-4,401	-6,436	-10,190	-12,296
Dividends paid	-3,259	0	-290	-925	-3,592	-3,252
Cash flow from financing	11,293	30,092	86,156	102,720	72,218	59,728
Net cash flows	-645	-1,366	-1,835	2,381	1,530	6,145
Cash, start of the year	6,957	6,312	4,946	3,111	5,492	7,022
Cash, end of the year	6,312	4,946	3,111	5,492	7,022	13,167
FFO 2	1,291	2,113	4,049	9,129	9,595	14,095
FFOPS 2 (€)	0.31	0.51	0.97	2.12	2.18	3.20
Y-Y Growth						
FFO 2	n.a.	64%	92%	125%	5%	47%
FFOPS 2	n.a.	64%	90%	119%	3%	47%

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
2	20 March 2019	€17.95	Buy	€25.00
3	Today	€18.00	Buy	€26.00

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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.

RISK ASSESSMENT

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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