FCR Immobilien AG

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

Update

RATING	**BUY**
PRICE TARGET	**€ 13.40**
Return Potential	32.7%
Risk Rating	High

GOOD BUSINESS MOMENTUM CONTINUES IN Q2

Second quarter reporting featured a strong operational performance with all headline figures showing triple digit growth. Thanks to strong disposal income, FFO 2 reached €6.7m in H1, which already tops the 2018 result (€4.1m). The company now controls +€261m in commercial properties after acquiring 15 properties in H1 vs three disposals, while NAV stands at €94m (YE18: €89m). The good start in H1, a full pipeline (>€90m), and ample financing give us a high degree of confidence in our near-term forecasts. Our updated model now yields a €13.4 price target (old: €13.0). Our rating remains Buy.

Core activities contribute to good H1 performance FCR mixes a classic buy and hold concept with opportunistic asset rotation applied to mainly retail properties (retail equals 87% of portfolio) throughout Germany's secondary cities. As part of its cash recycling strategy, the company sold three properties (table 2 overleaf) in Q1 spurring strong disposal gains. Meanwhile, 15 new properties have been acquired YTD for a total of ~€36m pushing gross asset value (GAV) above €261m. Management have also hinted at some €90m in new deals in the works that could close by the end of the year. Based on the good business performance and prospects for further GAV growth in H2, we believe the company is well on track to hit our 2019 targets. We look for FFOPS 2 and NAVPS growth of 124% and 38% respectively.

Six month results already outpace 2018 Half year results (table 1 overleaf) showed impressive annualised growth. Rental and operating income rose strongly (+103%) to €29.5m, while EBITDA trebled to €11.7m. Both results were close to our forecasts. The performance was driven by the commercial portfolio, which spurred good rental income and disposal growth. Rental income rose 60% Y/Y to €9.6m while disposal income climbed ~132% on an annualised basis to €19.9m. FFOPS 2 more than tripled to €0.78. The variation in our FFOPS 2 forecast to the reported result relates to the higher EBITDA figure and lower financing costs. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	12.13	16.39	37.18	45.83	64.82	84.22
Y-o-y growth	n.a.	35.1%	126.9%	23.3%	41.4%	29.9%
EBIT (€m)	2.33	3.74	7.43	14.71	17.59	24.26
Net income (€m)	0.44	0.97	1.42	5.53	5.40	8.7
EPS (diluted) (€)	0.12	0.12	0.17	0.64	0.61	0.99
NAV (€ m)	40.31	75.81	89.25	128.86	133.43	162.41
NAVPS (€)	4.86	9.14	10.58	14.63	15.14	18.43
DPS (€m)	0.08	0.00	0.35	0.42	0.40	0.64
FFO 2 (€m)	1.3	2.11	4.05	9.33	10.1	14.0
Liquid assets (€m)	6.31	4.95	3.11	5.58	7.64	13.48

RISKS

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

COMPANY PROFILE

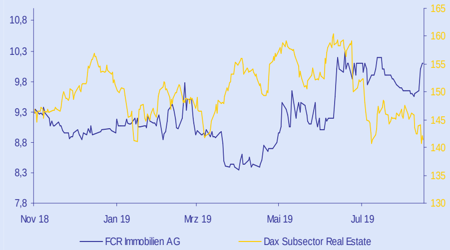
FCR Immobilien AG is a specialist real estate company focused on investing in and managing commercial retail properties primarily located in secondary markets throughout Germany.

MARKET DATA

MARKET DATA	As of 23 Aug 2019
Closing Price	€ 10.10
Shares outstanding	4.22m
Market Capitalisation	€ 42.62m
52-week Range	€ 8.35 / 10.30
Avg. Volume (12 Months)	1,792

Multiples	**2018**	**2019E**	**2020E**
P/FFO 2	39.7	20.9	9.3
P/NAV	1.0	0.7	0.7
FFO 2 Yield	4.8%	10.7%	11.4%
Div. Yield	1.9%	4.6%	4.1%

STOCK OVERVIEW



COMPANY DATA

COMPANY DATA	As of 30 Jun 2018
Liquid Assets	€ 11.70m
Current Assets	€ 17.20m
NAV	€ 93.90m
Total Assets	€ 201.70m
Current Liabilities	€ 3.00m
Shareholders' Equity	€ 16.50m

SHAREHOLDERS

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

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Table 1: H1/19 results vs forecasts and prior year

€ '000	H1/19	H1/19E	*variance*	H1/18	*variance*
Revenue	29,448	27,598	*6.7%*	14,526	*102.7%*
EBITDA	11,734	10,957	*7.1%*	3,901	*200.8%*
Margin (%)	*39.8%*	*39.7%*	-	*26.9%*	-
FFO 2	6,735	5,885	*14.4%*	1,934	*248.2%*
FFOPS 2 (€)	0.78	0.68	*14.4%*	0.23	*237.9%*

Source: First Berlin Equity Research; FCR Immobilien

Figure 1: Key performance indicators as of 30 June 2019

Source: First Berlin Equity Research; FCR Immobilien

PORTFOLIO OVERVIEW AND DEVELOPMENTS

FCR generated some €9.5m in profits from the three disposals YTD. In conjunction with the properties acquired so far this year, the company now controls some 306,000 m² of lettable space (H1/18: 158,000 m²) with annualised net rental income of €18.8m. The portfolio features 5.3 year WALT and a 9.5% yield.

Table 2: YTD disposal overview

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

Since 2014, the company has now acquired 86 properties vs 22 total disposals. In our view, the strong H1 results, which included a well balanced revenue and profitability mix, validate FCR's approach of disposing of assets after a +20 month holding period to recycle cash.

Table 3: YTD acquistions and H2 pipeline

	Acquistions YTD			Deal pipeline	
Asset type	Number	Volume (€m)	Asset type	Number	Volume (€m)
Retail	8	n.a.	Retail	11	40
Hotel	1	n.a.	Office	5	23
Residential	1	n.a.	Residential	1	15
Logistics	1	n.a.	Logistics	2	13
Totals	**11**	**> 36**	**Totals**	**19**	**91**

Source: First Berlin Equity Research; FCR Immobilien

CAPITAL STRUCTURE REMAINS SOLID

Table 4: Balance sheet developments

All figures in EUR '000	H1/19	2018	*variance*
Cash and liquid assets	11,744	3,111	*277%*
Total assets	201,636	184,319	*9%*
Investment property[1]	177,365	163,214	*9%*
Shareholders' equity	16,550	13,258	*25%*
Equity ratio	8.2%	7.2%	-
Total debt (short- and long-term)	171,040	157,804	*8%*
Net debt	159,296	154,693	*3%*
Loan-to-Value[2]	67.4%	61.8%	-
Net LTV[2]	59.1%	60.6%	-

[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 €12m for the period ended 30 June compared to €3.1m at the end of Q4/18, while net debt stood at €159m vs €155m exiting 2018.

The debt structure showed an LTV of 67% at H1, and the interest coverage ratio (ICR) climbed to 4.0x vs 2.1x at YE18. After agreeing to maintain an ICR of > 1.0x as part of its latest bond issuance, FCR has plenty of headroom according to this covenant.

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 ~€16m, and we expect the bond to be fully subscribed (€30m) by 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 will have ample financial firepower to execute on its deal pipeline.

Finally, FCR conducted a 2:1 stock split in conjunction with the H1 report issuing one "gratis-share" out of its capital reserves and profits carry forward for each outstanding share. The share count now doubles to 8.811m shares outstanding.

Table 5: Modifications s to forecasts and price target

	old	new	*revision*	upside	dividend yield	
Price target (€)	**13.0**	**13.4**	***3.1%***	**32.7%**	**4.1%**	
		2019E			**2020E**	
All figures in € '000	**old**	**new**	***revision***	**old**	**new**	***revision***
Revenue	43,553	45,831	*5.2%*	63,162	64,817	*2.6%*
EBITDA	17,310	18,501	*6.9%*	21,365	22,300	*4.4%*
Margin (%)	*39.7%*	*40.4%*	-	*33.8%*	*34.4%*	-
FFO 2	9,129	9,335	*2.3%*	9,595	10,113	*5.4%*
FFOPS 2 (€)	1.06	1.08	*2.3%*	1.09	1.15	*5.4%*

Source: First Berlin Equity Research estimates

Bumping up forecasts on H1 performance Modifications to our estimates are driven by an increase in 2019 rental income to €18.3m (old: €16m) following a better than expected H1 result (€9.6m). We have also raised our staffing expenses to account for new additions to the team. Plus, we now look for a higher tax expense this year. These factors account for the lower earnings uplift in 2019. Our price target moves from €13.0 to €13.4 and our rating remains Buy.

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. The company has already closed deals for > €36m in 2019, and the acquisition pipeline includes some €90m in the advanced stages with exclusivity. We expect these deals to spur strong rental and disposal income over the near term.

ECONOMIC PROFIT MODEL

in €'000	2019E	2020E	2021E	TV
EBITDA	18,501	22,300	29,543	29,986
Investment income	0	0	0	0
Tax Expense	-2,731	-1,997	-3,231	-3,279
NOPAT	**15,770**	**20,303**	**26,312**	**26,707**
Total assets	**298,455**	**387,753**	**469,573**	**469,573**
(-) Current liabilities	2,744	3,894	4,848	4,848
(+) Current financial debt	0	0	0	0
(-) Cash	5,579	7,637	13,480	13,480
(-) Deferred taxes	851	936	1,030	1,030
Capital employed (CE)	**289,281**	**375,286**	**450,215**	**450,215**
Average CE	233,035	332,284	412,750	450,215
ROCE	6.8%	6.1%	6.4%	5.9%
WACC	5.7%	5.7%	5.7%	5.7%
ROCE-WACC	1.1%	0.4%	0.7%	0.3%
Economic Profit	2,569	1,479	2,930	1,202
NPV	**2,520**	**1,373**	**2,574**	**22,866**
Fair value calculation				
Total return	**29,333**			
(+) NAV (2018)	**89,254**			
(-) Dividend	925			
Equity value	**117,662**			
Number of shares (000's, fully diluted)	8,811			
Fair value per share (€)	**13.40**			

INCOME STATEMENT

All figures in EUR '000	2016	2017	2018	2019E	2020E	2021E
Rental income	5,729	8,490	15,933	18,331	24,817	29,918
Property disposal income	6,400	7,900	21,252	27,500	40,000	54,300
Revenues	**12,129**	**16,390**	**37,185**	**45,831**	**64,817**	**84,218**
Property OpEx	-3,000	-5,108	-4,920	-3,666	-4,963	-5,984
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	-4,218	-4,513	-4,829
Other operating expenses	-1,617	-2,020	-3,054	-3,146	-3,240	-3,338
Depreciation & amortisation	-775	-1,192	-2,653	-3,791	-4,713	-5,281
Operating income (EBIT)	**2,333**	**3,735**	**7,434**	**14,710**	**17,587**	**24,261**
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**	**8,275**	**7,397**	**11,966**
Income taxes	-408	-304	-1,555	-2,731	-1,997	-3,231
Net income / loss	**441**	**974**	**1,423**	**5,544**	**5,400**	**8,735**
Minority interests	-64	0	0	0	0	0
Net income after minorities	**505**	**974**	**1,423**	**5,544**	**5,400**	**8,735**
Basic EPS (in €)	**0.12**	**0.12**	**0.17**	**0.64**	**0.61**	**0.99**
Diluted EPS (in €)	**0.12**	**0.12**	**0.17**	**0.64**	**0.61**	**0.99**
EBITDA	**3,020**	**4,872**	**10,060**	**18,501**	**22,300**	**29,543**
Ratios						
EBITDA margin	24.9%	29.7%	27.1%	40.4%	34.4%	35.1%
EBIT margin	19.2%	22.8%	20.0%	32.1%	27.1%	28.8%
Tax rate	28.9%	23.6%	22.7%	24.0%	18.0%	18.0%
Expenses as % of revenues						
Personnel expenses	6.1%	7.9%	8.9%	9.2%	7.0%	5.7%
Other operating expenses	13.3%	12.3%	8.2%	6.9%	5.0%	4.0%
Y-Y Growth						
Revenues	23.8%	35.1%	126.9%	23.3%	41.4%	29.9%
EBITDA	-1.8%	61.3%	106.5%	83.9%	20.5%	32.5%
EBIT	-23.1%	60.1%	99.0%	97.9%	19.6%	38.0%
Net income/ loss	-67.5%	120.9%	46.1%	289.6%	-2.6%	61.8%
Operating income[1]	**444**	**-906**	**2,260**	**3,710**	**7,587**	**10,686**
Depreciation & amortisation	687	1,137	2,626	3,791	4,713	5,281
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**	**18,501**	**22,300**	**29,543**
Financial expense	-1,484	-2,457	-4,456	-6,436	-10,190	-12,296
Tax	-245	-302	-1,555	-2,731	-1,997	-3,231
FFO 2	**1,291**	**2,113**	**4,049**	**9,335**	**10,113**	**14,016**
FFOPS 2 (€)	0.31	0.25	0.48	1.08	1.15	1.59

[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**	**15,358**	**19,044**	**26,449**
Cash and cash equivalents	6,312	4,946	3,111	5,579	7,637	13,480
Inventories	238	248	340	608	1,054	1,408
Trade receivables	5,239	1,758	1,187	2,511	3,552	4,615
Other current assets	728	1,357	6,521	6,660	6,802	6,947
Non-current assets, total	**33,551**	**71,837**	**173,159**	**283,097**	**368,709**	**443,123**
Property, plant & equipment	42	338	504	563	647	755
Investment property	31,573	62,758	163,214	273,047	358,510	432,732
Other LT assets	1,936	8,741	9,441	9,487	9,552	9,636
Total assets	**46,068**	**80,146**	**184,319**	**298,455**	**387,753**	**469,573**
Shareholders' equity & debt						
Current liabilities, total	**1,155**	**1,615**	**3,646**	**2,744**	**3,894**	**4,848**
Short-term debt	0	0	0	0	0	0
Trade payables	449	592	2,407	1,381	2,395	3,199
Provisions & current liabilities	706	1,023	1,239	1,363	1,499	1,649
Long-term liabilities, total	**38,983**	**71,627**	**171,635**	**278,798**	**365,149**	**440,790**
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**	**16,913**	**18,710**	**23,935**
Minority interests	0	0	0	0	0	0
Total equity	**5,930**	**6,904**	**9,038**	**16,913**	**18,710**	**23,935**
Total consolidated equity and debt	**46,068**	**80,146**	**184,319**	**298,455**	**387,753**	**469,573**
Ratios						
NAV	40,305	75,807	89,254	128,863	133,433	162,409
NAVPS (€)	4.9	9.1	10.6	14.6	15.1	18.4
Net debt	31,186	65,267	154,693	259,049	342,991	412,423
Interest cover (ICR)	1.9x	1.6x	2.1x	2.9x	2.2x	2.4x
Equity ratio	12.9%	8.6%	4.9%	5.7%	4.8%	5.1%
Return on equity (ROE)	7.4%	14.1%	15.7%	32.8%	28.9%	36.5%
Loan-to-value (LTV)	56.9%	46.0%	61.8%	68.7%	74.1%	74.6%
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**	**5,544**	**5,400**	**8,735**
Proceeds from disposal of trading properties	-1,920	-4,642	-5,174	-11,268	-10,446	-13,929
Depreciation & amortisation	687	1,137	2,626	3,791	4,713	5,281
Net financial result	1,484	2,457	4,412	6,436	10,190	12,296
Tax result	245	-370	675	2,731	1,997	3,231
Operating cash flow	**938**	**-444**	**3,962**	**7,233**	**11,854**	**15,614**
Trade and other receivables	-4,713	2,854	-3,829	-1,463	-1,182	-1,208
Trade & other payables	995	-37	10,852	-1,025	1,014	804
Provisions and other liabilities	177	317	554	462	488	515
Tax paid	0	0	-203	-2,731	-1,997	-3,231
Net operating cash flow	**-2,603**	**2,690**	**11,336**	**2,478**	**10,176**	**12,495**
Investment in fixed/intangible assets	-38	-10	-166	-183	-259	-337
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	-46	-65	-84
Interest income	86	644	427	0	0	0
Cash flow from investing	**-9,335**	**-34,148**	**-99,327**	**-102,729**	**-80,324**	**-66,121**
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	-3,604	-3,510
Cash flow from financing	**11,293**	**30,092**	**86,156**	**102,720**	**72,206**	**59,470**
Net cash flows	**-645**	**-1,366**	**-1,835**	**2,468**	**2,058**	**5,843**
Cash, start of the year	6,957	6,312	4,946	3,111	5,579	7,637
Cash, end of the year	**6,312**	**4,946**	**3,111**	**5,579**	**7,637**	**13,480**
FFO 2	**1,291**	**2,113**	**4,049**	**9,335**	**10,113**	**14,016**
FFOPS 2 (€)	0.31	0.25	0.48	1.08	1.15	1.59
Y-Y Growth						
FFO 2	n.a.	64%	92%	131%	8%	39%
FFOPS 2	n.a.	-18%	90%	124%	6%	39%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	12 November 2018	€9.90	Buy	€12.50
2	20 March 2019	€8.98	Buy	€12.50
3	11 June 2019	€9.00	Buy	€13.00
4	Today	€10.10	Buy	€13.40

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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**

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