

# WCM Beteiligungs- und Grundbesitz-AG

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

2016 Annual  
 Results

**RATING**  
**PRICE TARGET**  
 Return Potential 27.3%  
 Risk Rating High

**BUY**  
**€ 4.00**

## GROWTH STRATEGY PAYING OFF; RAISING PRICE TARGET

Full year results confirmed preliminary figures and underscored a highly successful year in which portfolio expansion translated into substantial revenue and earnings growth. Investment properties grew some 32% Y/Y to €662m, and FFO I more than doubled to €18m (2015: €9.9m). Management will propose a €0.10 per share dividend (FBe: €0.07) to the AGM on 4 July. The acquisition pipeline looks strong, and we expect further growth this year propelling WCM towards its €1bn portfolio target. Our updated valuation model generates a fair value of €4 per share (previously: €3.70). We raise our rating to Buy (previously: Add).

**Primed for further growth in 2017** WCM continues to have a strong acquisition pipeline of some €700m with particularly attractive opportunities in the retail centre asset class. Checks indicate the German commercial real estate market for Core and Core+ properties is in the middle of its cycle. This environment should provide WCM with ample opportunities to hit its €1bn portfolio target in the next twelve months. The existing €796m portfolio is well diversified by region and asset class and features strong KPIs including a 4.3% ERPA vacancy rate and 8.2 year WALT (see overleaf). We believe this will drive strong rental income and FFO I growth this year. The company boasts a well balanced debt portfolio with a 1.6% cost of debt and six year maturity.

**Rental income (RI) +212% Y/Y; EPRA NAV at €345m** Rental income reached €32.6m in 2016 (2015: €10.5m) led by the Office segment revenues of €18.8m (2015: €4.7m) followed by Retail with €13.8m (2015: €3.9m). Top line growth was driven by property acquisitions in these core segments. Office contributed €29.4m in pre-tax income, while Retail generated €17.8m for the year. Management guide for RI of €42m-€44m in 2017 with FFO I of €23m-€24m. Thanks to the strong results and acquisitions, EPRA NAV reached €345m equal to €2.62/share (2015: €291m; €2.38/share). (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	0.00	10.45	32.61	42.95	51.96	57.46
Y/Y growth	n.a.	n.a.	212.2%	31.7%	21.0%	10.6%
Adj. EBITDA (€m)	-0.67	10.73	25.17	33.18	38.81	42.60
Net income	1.2	57.7	18.6	55.3	67.3	75.5
EPS (diluted) (€)	0.08	0.72	0.12	0.37	0.41	0.44
EPRA NAV (€m)	31.81	290.61	345.40	444.88	528.70	606.95
DPS (€)	0.00	0.00	0.10	0.11	0.12	0.13
FCF I (€m)	0.00	7.93	18.03	23.29	26.33	28.88
FFOPS I	0.09	0.10	0.14	0.16	0.17	0.18
Liquid assets (€ m)	19.64	11.31	10.20	12.77	11.79	12.82

### RISKS

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

### COMPANY PROFILE

WCM Beteiligungs- und Grundbesitz-AG is a real estate company focused on the acquisition and management of commercial properties, particularly offices and retail properties located in Germany's major commercial districts.

### MARKET DATA

As of 27 Apr 2017

Closing Price	€ 3.14
Shares outstanding	131.96m
Market Capitalisation	€ 414.76m
52-week Range	€ 2.50 / 3.29
Avg. Volume (12 Months)	324,434

Multiples	2016	2017E	2018E
P/FFO I	22.6	19.2	18.5
P/EPRA NAV	1.2	1.1	0.9
FFO I/Yield	4.4%	5.2%	5.4%
Div. Yield	3.1%	3.6%	3.8%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Dec 2016

Liquid Assets	€ 10.01m
Current Assets	€ 31.73m
EPRA NAV	€ 343.40m
Total Assets	€ 710.27m
Current Liabilities	€ 40.00m
Total Equity	€ 315.93m

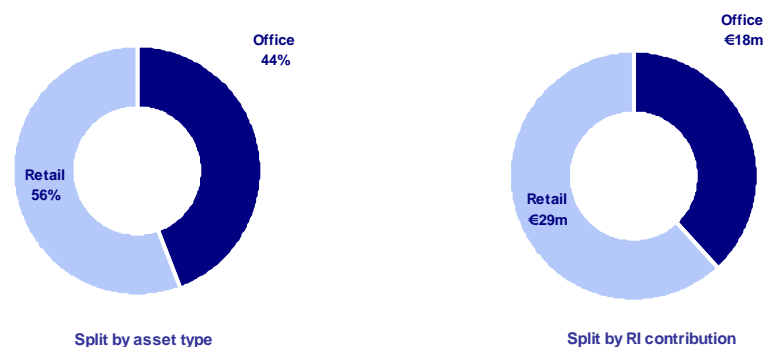
### SHAREHOLDERS

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

**Earnings boosted by significant uplift in property valuations** Net income (NI) reached €18.6m for the year (2015: €57.7m). Last year's figure was buoyed by exceptionally strong property portfolio fair value adjustments of some €54.9m. These gains are driven chiefly by increases in rent and occupancy metrics translating into increased property valuations conducted by external assessors. We consider adjusted EBITDA (stripped of revaluation and one-off items) a more relevant KPI to measure operational success. For the year, WCM generated adj. EBITDA of €25.2m, which matched our forecast of FBe: €25.3m, vs €10.7m in 2015.

Staff expenses increased in conjunction with the ramp-up of operations to €4.6m vs €1.5m in the prior year. We believe the current staff will be able to support portfolio growth well above the targeted €1bn and have modelled only minor increases. Other operating expenses climbed to €12.9m (2014: €6.7m) owing chiefly to €9.8m in one off items including some €3.8m in non-cash receivable write downs traced to acquired properties—a common occurrence. Financial expense rose to €7.5m (2015: €2.1m) with the increase in debt load to fund portfolio growth, while the €17m tax result stems from an increase in deferred taxes due to tax restructuring and property revaluations.

**Figure 1: Portfolio splits**



Source: First Berlin Equity Research; WCM

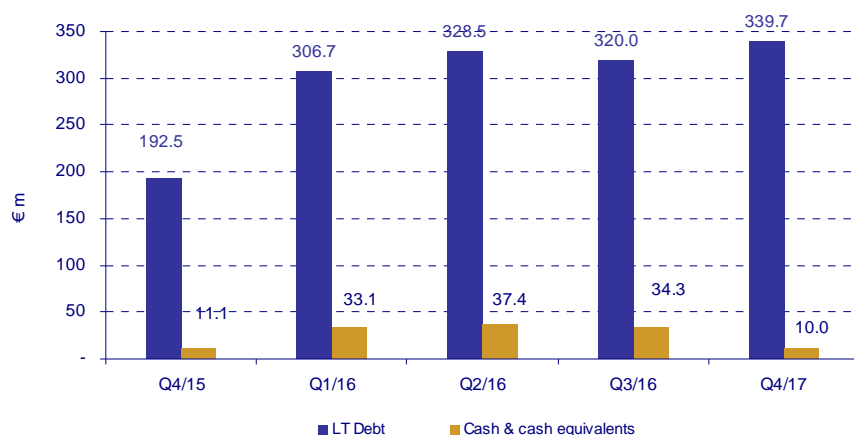
**Major milestone within reach** With its late 2014 re-launch, WCM set out to build a commercial real estate portfolio with over €1bn in assets. The company is off to a strong start in 2017 having closed several deals. The number of properties now stands at 57 (2016: 53) with a portfolio volume of €796m. Assets are well diversified across the major German hubs: Berlin, Frankfurt, Hamburg, Rhine-Main, Stuttgart, Munich, Leipzig and Dresden—all fulfilling the criteria of high quality commercial properties in good locations that offer attractive yields and low vacancy rates.

**Table 1: Portfolio development and KPIs**

	2015	Q1/17
Number of properties	49	57
Market value (€'000)	501,546	796,200
WALT in years	9.4	8.2
EPRA vacancy	4.8%	4.3%
Rental income p.a. (€'000)	31,500	47,500
Gross yield	6.2%	6.0%
Net debt (€m)	252,995	460,000
Net LTV	50.0%	57.0%
Average cost of debt	2.1%	1.9%

Source: First Berlin Equity Research; WCM

Including the recent “Mia” and “Jena” deals, management reported a rental income run rate of €47.5m for the assets at the end of the reporting period, which corresponds to a 6.0% yield. The weighted average remaining lease term (WALT) was reported at 8.2 years, while the vacancy rate was stated at a low 4.3%. The company will continue to screen for retail properties with a >6% yield and office assets with a yield north of 5%. Given the estimated €700m pipeline, we believe the company should be able to reach its targeted €1bn in assets within the next twelve months.

**Figure 2: Long term debt and liquidity developments**

Source: First Berlin Equity Research; WCM

**Solid balance sheet metrics to end the year** The debt structure featured a Loan-to-Value (LTV) of 55% at the end of 2015. This is slightly above the 50% level targeted by the company. WCM exited the year with cash and liquid assets of €10m and net debt of €352m. On an adjusted EBITDA basis, the interest coverage ratio was 3.4x at the end of the year. Operating cash flow amounted to €21.3m vs €-2.5m in the prior year. The improvement stems largely from an improvement in working capital in conjunction with the strong net income result. Cash outflow from investing activities totalled €-76m owing heavily to property acquisition. These outflows were then offset by cash flow from financing activities amounting to €53m leading to a change in cash of €-1.1m for 2016.

**Table 2: Financial highlights**

in €'000	2016	2015	Delta
Cash & liquid assets	10,013	11,136	-10.1%
Investment property	662,073	501,546	32.0%
Assets held for sale	0	4,185	-
Total equity	315,933	269,582	17.2%
EPRA NAV <sup>1</sup>	290,608	290,608	-
Interest bearing debt	361,864	264,131	37.0%
Net debt	351,851	252,995	39.1%
Loan-to-Value (LTV)	54.7%	52.2%	-
Equity ratio	44.5%	48.9%	-

Source: First Berlin Equity Research; WCM

**Further growth ahead this year** We believe the pipeline will lead to a boost in the portfolio to €942m, while adhering to strict investment criteria. Changes to our forecasts reflect higher staff expenses than previously forecasted, (as noted above, the present staff should be able to service a portfolio size of €1.5bn to €2bn), an increase in financing costs to facilitate growth and an increase in tax expense to reflect the aforementioned deferred tax restructuring. These factors account for the disproportionate change to earnings assumptions. Our revised forecasts translate into FFO I of €23.3m, which is at the low end of the €23m—€24m guided range. We expect the company to continue to pay dividends at the level of the €0.10/share announced for 2016 in subsequent years. The dividend policy helps the company secure deals with shares issued as contributions in kind.

**Table 3: Changes to our forecasts**

in €'000	2017E			2018E		
	old	new	% delta	old	new	% delta
Rental income	43,595	42,947	-1.5%	52,521	51,963	-1.1%
Adjusted EBITDA	32,617	33,181	1.7%	40,995	38,813	-5.3%
Margin (%)	74.8%	77.3%	-	78.1%	74.7%	-
FFO I	25,121	23,286	-7.3%	32,031	26,332	-17.8%

Source: First Berlin Equity Research



We have rolled our model forward, which adopts the better than expected year end EPRA NAV, and now see fair value for the share at €4.00 (previously: €3.70) corresponding to a Buy rating (previously: Add). We have also lowered the WACC to 4.1% (previously: 5.6%) to account for the lower cost of debt (1.6%) and improved debt to equity ratio. Thanks to the good prospects for further portfolio growth, the return on NAV remains strong and should allow the company to create substantial value for investors.

**Table 4: EPRA NAV valuation**

in €'000	2017E	2018E	2019E
Shareholders' equity	411,141	486,468	555,260
Consolidated NAV	426,438	505,801	579,124
NAV per share	3.01	3.26	3.60
Deferred taxes	18,443	22,897	27,823
EPRA NAV	444,882	528,698	606,947
<b>EPRA NAV per share</b>	<b>2.94</b>	<b>3.33</b>	<b>3.73</b>
FFO	23,286	26,332	28,877
Revaluation results	37,974	44,540	49,253
New Equity	64,391	26,985	15,431
<b>Total return</b>	<b>125,650</b>	<b>97,856</b>	<b>93,561</b>

EPRA NAV	444,882	528,698	606,947
Return on NAV	36%	22%	18%
Cost of equity	7.0%	7.0%	7.0%
<b>Spread (percentage points)</b>	<b>29%</b>	<b>15%</b>	<b>11%</b>

WACC	4.1%	4.1%	4.1%
Value creation	130,747	79,342	64,989
NPV	127,234	74,158	60,737
Dividends paid	12,619	16,300	18,432
Present value of dividends paid	12,280	15,235	17,226

<b>Fair value calculation</b>			
PV of total value created	262,129		
NAV (2016)	345,400		
Adjustments	0		
Equity value	607,529		
PV of dividends	44,741		
<b>Fair value</b>	<b>652,270</b>		
Number of shares (000's, fully diluted)	161,592		
<b>Fair value per share (€)</b>	<b>4.00</b>		

Source: First Berlin Equity Research



## 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>42,947</b>	<b>51,963</b>
Property OpEx	0	-885	-2,817	-3,650	-4,417
<b>Net rental income</b>	<b>0</b>	<b>9,560</b>	<b>29,796</b>	<b>39,296</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	-4,724	-4,677
Other operating expenses	-1,489	-6,715	-12,853	-7,633	-7,823
Depreciation & amortisation	0	-359	-1,086	-1,074	-1,247
<b>Operating income (EBIT)</b>	<b>-673</b>	<b>58,872</b>	<b>42,747</b>	<b>65,240</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>56,340</b>	<b>68,422</b>
Income taxes	2,087	879	-17,048	-995	-1,164
<b>Net income / loss</b>	<b>1,206</b>	<b>57,675</b>	<b>18,561</b>	<b>55,344</b>	<b>67,257</b>
Minority interests	0	3,383	2,763	3,321	4,035
<b>Net income after minorities</b>	<b>1,206</b>	<b>54,292</b>	<b>15,798</b>	<b>52,024</b>	<b>63,222</b>
<b>Basic EPS (in €)</b>	<b>0.08</b>	<b>0.72</b>	<b>0.12</b>	<b>0.37</b>	<b>0.41</b>
<b>Diluted EPS (in €)</b>	<b>0.08</b>	<b>0.72</b>	<b>0.12</b>	<b>0.37</b>	<b>0.41</b>
<b>Adjusted EBITDA</b>	<b>-673</b>	<b>10,731</b>	<b>25,165</b>	<b>33,181</b>	<b>38,813</b>
<b>Ratios</b>					
Adjusted EBITDA margin	n.m.	102.7%	77.2%	77.3%	74.7%
Tax rate	4.0%	3.0%	3.0%	3.0%	3.0%
<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%	31.7%	21.0%
Operating income	n.m.	n.m.	-27.4%	52.6%	22.2%
Adjusted EBITDA	n.m.	n.m.	134.5%	31.9%	17.0%
Net income/ loss	n.m.	4682.3%	-67.8%	198.2%	21.5%



## BALANCE SHEET

All figures in EUR '000	2014	2015	2016	2017E	2018E
<b>Assets</b>					
<b>Current assets, total</b>	<b>23,311</b>	<b>30,446</b>	<b>31,735</b>	<b>34,413</b>	<b>33,476</b>
Cash and cash equivalents	19,376	11,136	10,013	12,582	11,590
Property held for sale	0	4,185	0	0	0
Trade receivables	0	309	132	235	285
Other current assets	3,935	14,816	21,590	21,596	21,601
<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>993,767</b>	<b>1,156,554</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	15,298	19,333
<b>Shareholders' equity</b>	<b>30,759</b>	<b>261,359</b>	<b>303,956</b>	<b>411,141</b>	<b>486,468</b>
Loss carryforward / retained earnings	-16,799	62,420	78,396	117,801	164,723
<b>Total consolidated equity and debt</b>	<b>43,889</b>	<b>550,924</b>	<b>710,273</b>	<b>993,767</b>	<b>1,156,554</b>
<b>Ratios</b>					
Current ratio (x)	3.97	0.34	0.79	0.50	0.42
Equity ratio	72.5%	48.9%	44.5%	42.9%	43.7%
Financial leverage	-36.4%	96.8%	115.8%	125.4%	121.7%
EPRA NAV	1.97	3.45	2.34	2.89	3.13
EPRA NAV per share (€)	0.94	2.41	2.62	2.94	3.33
Net debt	-11,209	252,995	351,851	515,523	592,025
Return on equity (ROE)	3.9%	22.1%	6.1%	13.5%	13.8%
Loan-to-value (LTV)	47.1%	52.2%	54.7%	56.1%	54.6%
Net LTV	n.a.	50.0%	53.1%	54.7%	53.6%



## CASH FLOW STATEMENT

All figures in EUR '000	2014	2015	2016	2017E	2018E
<b>Net income</b>	<b>1,206</b>	<b>57,675</b>	<b>18,561</b>	<b>55,344</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	1,074	1,247
Net financial result	0	2,076	7,138	8,900	11,317
Tax result	0	722	388	995	1,164
<b>Operating cash flow</b>	<b>1,206</b>	<b>5,928</b>	<b>-2,039</b>	<b>28,339</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	2,008	2,398
Provisions and other liabilities	-1,868	3,324	23,988	3,933	4,707
Tax paid	0	12	-799	-995	-1,164
<b>Net operating cash flow</b>	<b>1,686</b>	<b>-2,586</b>	<b>21,339</b>	<b>33,285</b>	<b>42,386</b>
CapEx/ intangibles	0	-4,748	-424	-1,148	-1,322
Outflows for investment property	-3,086	-347,658	-89,345	-174,291	-89,949
Inflows from disposal of PP&E	319	66	14,002	0	0
<b>Cash flow from investing</b>	<b>-2,767</b>	<b>-352,340</b>	<b>-75,767</b>	<b>-175,438</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	-16,300
<b>Cash flow from financing</b>	<b>20,453</b>	<b>346,686</b>	<b>53,305</b>	<b>144,723</b>	<b>47,892</b>
<b>Net cash flows</b>	<b>19,372</b>	<b>-8,240</b>	<b>-1,123</b>	<b>2,570</b>	<b>-992</b>
Cash, start of the year	4	19,376	11,136	10,013	12,583
<b>Cash, end of the year</b>	<b>19,376</b>	<b>11,136</b>	<b>10,013</b>	<b>12,583</b>	<b>11,591</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>23,286</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%	20.3%	7.0%
FFO I	n.m.	460.9%	127.3%	29.2%	13.1%
FFOPS I	n.m.	15.8%	32.6%	17.9%	3.4%



**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	8 December 2015	€2.59	Buy	€3.60
2...4	↓	↓	↓	↓
5	29 November 2016	€2.62	Buy	€3.70
6	21 February 2017	€2.81	Buy	€3.70
7	22 March 2017	€3.03	Add	€3.70
8	Today	€3.14	Buy	€4.00

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

### ASSET RECOMMENDATION

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**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%.

### RISK ASSESSMENT

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- key sources of information in the preparation of this research report
- valuation methods and principles
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