

CR Capital Real Estate AG

Germany / Real Estate
 Primary exchange: Frankfurt
 Bloomberg: CRZ GR
 ISIN: DE000A0WMQ53

Q2 2016
 Results

RATING
BUY

PRICE TARGET
€2.80

Return Potential 136.3%
 Risk Rating High

H1 REVENUES IN LINE; EXPECT IMPROVED PROFITABILITY IN H2

Six month results were mixed compared to our targets. The company booked revenues of €8.4m, thanks largely to the sale of the Berlin properties Griegstraße 2 and Lilienthalstraße 3a-d, 5b and 5c. The figure was in line with our target of €8.4m. However, H1/16 earnings came in lower than expected due to the low gains on the disposed assets. We look for profitability to improve in H2 with the handover of the Borgmannstraße property. We now expect the Leipzig project to generate initial turnover in 2017 (previously: H2/16) and have adjusted our forecasts accordingly. We have also increased our mid- to long-term forecasts to account for the tight residential market. Our rating remains Buy with a €2.80 price target.

Leipzig pipeline remains the earnings driver Last year CR Capital announced the acquisition of the Halleschesfeld project in Leipzig. The company expects the project to generate some €150m in revenues and plans to realise the full development of the construction pipeline over a five year span. The project has encountered some initial permitting delays as the company has had to deal with some legacy clean up issues. We now expect the company to hand over the initial flats in 2017, and we look for these to exhibit strong profitability driven by the positive fundamentals of the Leipzig property market plus favourable terms negotiated with suppliers and subcontractors.

Expect similar top line result in H2/16 with higher profitability CR Capital disposed of two properties in its portfolio (Griegstraße 2 and Lilienthalstraße) in H1/16. The revenue total of €8.4m (FBe: €8.4m) included €8.1m in property sales plus an additional €0.3m in rental income from assets held. This compares to a top line of €6.5m in H1/15 comprising €6.0m in property sales and rental income of €0.5m. The gross profit for the period was lower than expected with the book values of the disposed assets virtually matching the proceeds from the sales. We expect the gross margin to improve in H2/16 with the announced handover of the Borgmannstraße project. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016E	2017E	2018E	2019E
Revenue (€m)	18.34	8.97	16.97	20.42	35.42	43.67
Y-o-y growth	36.0%	-51.1%	89.2%	20.3%	73.5%	23.3%
EBIT (€m)	7.29	2.72	0.45	8.87	5.83	7.46
EBIT margin	39.7%	30.3%	2.6%	43.4%	16.5%	17.1%
Net income (€m)	4.81	1.69	0.72	6.15	4.03	5.16
EPS (diluted) (€)	0.28	0.09	0.04	0.33	0.21	0.27
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	3.51	-1.33	5.97	5.33	2.86	4.06
Net gearing	21.8%	17.6%	-10.4%	-27.2%	-32.5%	-38.8%
Liquid assets (€m)	2.97	1.95	4.54	9.55	12.33	16.30

RISKS

Risks include but are not limited to: increasing competition, the company's focus on the residential market in Berlin, and the loss of key personnel.

COMPANY PROFILE

CR Capital Real Estate AG, listed on the Entry Standard of Frankfurter Boerse, is a real estate company focusing on the metropolitan areas of Berlin and Leipzig.

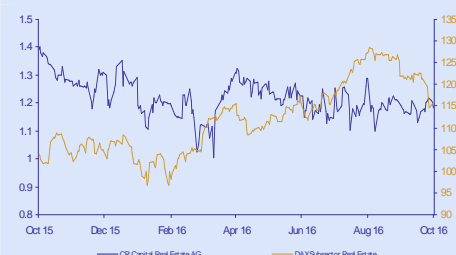
MARKET DATA

As of 12 Oct 2016

Closing Price	€ 1.19
Shares outstanding	18.78m
Market Capitalisation	€ 22.26m
52-week Range	€ 1.00 / 1.40
Avg. Volume (12 Months)	7,872

Multiples	2015	2016E	2017E
P/E	13.0	31.0	3.6
EV/Sales	2.0	1.1	0.9
EV/EBIT	6.7	40.7	2.0
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 6.40m
Current Assets	€ 19.57m
Intangible Assets	€ 6.59m
Total Assets	€ 33.37m
Current Liabilities	€ 9.37m
Shareholders' Equity	€ 20.71m

SHAREHOLDERS

MPH Group	54.0%
Free Float	46.0%



Personnel costs for the six month period increased slightly to €0.35m compared to €0.34m in H1/15. Other operating expenses were lower for the period at €0.34m vs €0.39m in the prior year period. The net financial result likewise remained steady at €-0.11m vs €-0.45m in H1/15. The company benefited from a positive tax result of €0.7m in H1/16, thanks chiefly to deferred tax gains from the property sales. This allowed CR Capital to book net income of €0.2m (H1/15: €-0.3m).

Table 1: Six month results vs our forecasts

All figures in EUR '000	H1 2016	H1 2016E	% delta	H1 2015	% delta
Revenue	8,440	8,410	0.4%	6,484	30.2%
Gross profit	198	336	-41.1%	696	-71.6%
Margin (%)	2.3%	4.0%	-	10.7%	-
EBIT	-414	-272	-	-66	-
Margin (%)	n.a.	n.a.	-	n.a.	-
Net income	174	-388	-	-316	-155.1%
EPS diluted (\$)	0.01	-0.02	-	-0.02	-155.1%

Source: First Berlin Equity Research; Company

CR Capital ended the six month period with total assets of €33.4m compared to €35.7m at the end of 2015. The decrease stems primarily from the disposal of the rental properties. Property assets thus decreased from €13.2m at the end of 2015 to €7.2m at the six month 2016 mark. Shareholders' equity edged 1% higher during the first six months to €20.7m allowing the equity ratio to climb to 62% (FY15: 58%) against the slightly lower asset base. CR Capital also ended the period with a net cash position of €4.3m vs net debt of €0.1m at the close of 2015. In our view, this gives the company ample financing headroom for future projects.

Table 2: Balance sheet evolution

All figures in EUR '000	H1/16	FY 2015	Delta
Cash	6,400	1,947	228.7%
Short-term investments	27	34	-20.6%
Financial debt (short- and long-term)	2,166	2,124	2.0%
Net debt	-4,261	143	-3079.7%
Total assets	33,366	35,651	-6.4%
Shareholders' equity	20,712	20,539	0.8%
Equity ratio	62.1%	57.6%	-

Source: First Berlin Equity Research; Company

Property disposals increase cash position Operating cash flow benefited from a favourable working capital development from property sales resulting in cash flows of €2.0m for the first six months (H1/15: €2.0m). Cash flow from investment activities for the period totalled €6m thanks to the disposal of the Lilienthalstraße property, whereas no significant investments were made during the first six months of 2016. Cash flow from financing amounted to €-3.5m, due to the change in debt load. CR Capital ended the period with cash on the balance sheet of €6.4m compared to €2.0m at the end of 2015 and is well positioned to finance continued operations.

Table 3: Cash flow KPIs

All figures in EUR '000	H1/16	FY 2015
Operating cash flow	1,984	3,040
Cash flow from investments	6,010	-4,368
Free cash flow	7,994	-1,328
Cash flow from financing	-3,541	310
Net change in cash	4,453	-1,018

Source: First Berlin Equity Research; Company



German property market continues to flourish According to the analysts at Jones Lang LaSalle (JLL), a stable economy, rising household incomes, and an increasing population are all contributing to a price boom in German real estate. Key metrics for the Leipzig property market have improved in the first six months of 2016. Average rent for new buildings has climbed to €9.00/m² corresponding to an 8% increase over the prior year level. Moreover, the average price for privately owned flats has climbed some 20% to €1,620/m² compared to the previous year. Given these encouraging KPIs, we believe CR Capital will be able to benefit from strong market fundamentals as it completes the construction of its Leipzig pipeline over the next few years.

Table 4: Changes to our forecasts

All figures in € '000	2016E			2017E		
	old	new	% delta	old	new	% delta
Revenue	33,792	16,969	-49.8%	27,800	20,724	-25.5%
Gross profit	6,962	1,760	-74.7%	6,950	10,433	50.1%
Margin (%)	6.6%	10.4%	-	6.7%	50.3%	-
EBIT	5,066	445	-91.2%	4,943	9,069	83.5%
Margin (%)	3.4%	2.6%	-	3.5%	43.8%	-
Net income	3,718	722	-80.6%	3,250	6,286	93.4%
EPS diluted (€)	0.22	0.04	-80.6%	0.19	0.33	93.4%

Source: First Berlin Equity Research; Company

Pushing out near term revenue forecasts to reflect slower than expected construction progress We have lowered our near term forecasts (Table 4) to account for permit delays attributed to legacy clean up issues with the Halleschesfeld project in Leipzig. The company reported steady progress up to this point with early stage activities including archaeological assessments, nature preservation and green relocation studies. We had originally expected the initial flats to be handed over in H2 2016 but are now pushing out the first handovers until 2017.

Next year we estimate the company will hand over the keys of some 50 flats in Schkeuditz to their new owners. We expect this to translate into €20.2m in sales, whereas rental income from the properties held should account for an additional €0.2m in revenue. The first completed units should be exceptionally profitable in our view. CR Capital was able to negotiate some exceptional terms for key construction materials and subcontracted labour. We look for this to result in a much higher than average margin next year. We continue to forecast an aggregate sales volume of €150m for Halleschesfeld. However, this figure could prove conservative if property prices continue their ascent in the wake of the aforementioned macro economic factors.

For H2 2016, we look for a similar performance to H1 in terms of top line. The company has already communicated the handover of the Borgmannstraße 16 project. However, we believe profitability will be much higher in H1/16, due to better pricing. We target sales of some €8.9m in H2/16 with a gross profit of €1.6m. We also think operating expenses will mirror H1 and allow the company to book net income of €0.6m for the period.

Mid- to long-term outlook looks bright We have increased our mid- to long-term forecasts, given the extremely tight residential market in major German hubs. There are simply very few apartments available to either buy or rent, and the situation is becoming acute in certain cities such as Berlin, Dresden and Leipzig. We do not see this situation reversing anytime soon, meaning supply will have to come from new-build apartments. We thus see CR Capital as well positioned over the long term to capitalise on this environment. Moreover, the company's improved net cash position and equity ratios should provide management with the flexibility to secure future projects for the pipeline.



VALUATION

After reviewing the company outlook with management, we have taken the opportunity to revisit the assumptions for our WACC in addition to adjusting our long term forecasts. Primarily, we have adjusted our long term debt to equity ratio and now assume the company will only require 35% debt to finance operations (previously 65%). This leads to an increase in our WACC to 11% (previously 9%). Net debt also improved since our last report from €1.0m to €-4.2m. Following the adjustments to our forecasts, our model still yields fair value of €2.80/share. Our rating remains Buy.

All figures in € '000	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	16,969	20,417	35,421	43,671	43,671	44,175	45,375	46,175
NOPLAT	312	6,209	4,084	5,222	5,213	5,281	5,444	5,551
+ Depreciation & amortisation	25	31	53	66	66	66	68	69
- Revaluation profits	-66	-36	-109	-110	-112	-114	-115	-117
Net operating cash flow	271	6,204	4,028	5,177	5,166	5,233	5,396	5,503
- total investments (CAPEX and WC)	4,629	-1,401	-1,792	-1,778	-1,641	-1,772	-1,920	-2,044
Capital expenditures	-42	-51	-89	-109	-109	-110	-113	-115
Working capital	4,672	-1,350	-1,703	-1,669	-1,531	-1,661	-1,806	-1,929
Free cash flows (FCF)	4,901	4,802	2,237	3,399	3,526	3,461	3,476	3,459
PV of FCF's	4,793	4,232	1,776	2,432	2,274	2,011	1,820	1,632

All figures in '000	
PV of FCFs in explicit period (2016-2030E)	28,465
PV of FCFs in terminal period	19,233
Enterprise value (EV)	47,698
+ Net cash / - net debt	4,235
+ Investments / minority interests	0
Shareholder value	51,933
Fair value per share in EUR	2.76

Cost of equity	15.0%
Pre-tax cost of debt	5.0%
Tax rate	30.0%
After-tax cost of debt	3.5%
Share of equity capital	65.0%
Share of debt capital	35.0%
WACC	11.0%

*for layout purposes the model shows only to 2023 but runs until 2028

		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	8.0%	3.66	3.79	3.94	4.12	4.32	4.57	4.88
	9.0%	3.22	3.31	3.41	3.53	3.67	3.82	4.01
	10.0%	2.88	2.94	3.01	3.10	3.19	3.30	3.42
	11.0%	2.61	2.65	2.71	2.76	2.83	2.90	2.99
	12.0%	2.38	2.42	2.46	2.50	2.55	2.60	2.66
	13.0%	2.20	2.23	2.26	2.29	2.33	2.37	2.41
	14.0%	2.05	2.07	2.09	2.12	2.15	2.17	2.21



INCOME STATEMENT

in € '000	2014	2015	2016E	2017E	2018E
Revenue	18,338	8,970	16,969	20,417	35,421
Cost of goods sold	-11,038	-9,073	-15,209	-10,183	-28,260
Gross profit	7,300	-103	1,760	10,233	7,161
Personnel expenses	-539	-785	-707	-714	-721
Depreciation & amortisation	-21	-28	-25	-31	-53
Other impairments	-63	-704	0	0	0
Other operating expenses	-2,310	-995	-746	-754	-761
Other operating income	1,445	1,391	97	98	99
Revaluation gains	1,475	3,943	66	36	109
Operating income (EBIT)	7,287	2,719	445	8,870	5,834
Interest expense	-358	-246	-158	-89	-84
Interest income	41	56	38	0	0
Pre-tax income (EBT)	6,970	2,529	325	8,781	5,750
Tax expense	-2,162	-840	397	-2,634	-1,725
Net income / loss	4,808	1,689	722	6,147	4,025
Diluted EPS (in €)	0.28	0.09	0.04	0.33	0.21
EBITDA	7,308	2,747	470	8,901	5,887
Ratios					
Gross margin	39.8%	-1.1%	10.4%	50.1%	20.2%
EBIT margin on revenues	39.7%	30.3%	2.6%	43.4%	16.5%
EBITDA margin on revenues	39.9%	30.6%	2.8%	43.6%	16.6%
Net margin on revenues	26.2%	18.8%	4.3%	30.1%	11.4%
Tax rate	31.0%	33.2%	-122.0%	30.0%	30.0%
Expenses as % of revenues					
Personnel expenses	2.9%	8.8%	4.2%	3.5%	2.0%
Other operating expenses	12.6%	11.1%	4.4%	3.7%	2.1%
Y-Y Growth					
Revenues	n.m.	-51.1%	89.2%	20.3%	73.5%
Operating income	n.m.	-62.7%	-83.6%	1893.1%	-34.2%
Net income/ loss	n.m.	-63.7%	-87.1%	2600.7%	-34.5%



BALANCE SHEET

in € '000	2014	2015	2016E	2017E	2018E
Assets					
Current assets, total	22,886	15,849	19,629	25,902	30,485
Cash and cash equivalents	2,965	1,947	4,543	9,549	12,329
Accounts receivable	823	520	651	783	1,359
Other assets	266	308	317	327	337
ST financial assets	1,399	34	34	34	34
Assets held for sale	17,433	13,040	14,083	15,210	16,427
Non-current assets, total	11,645	19,803	13,896	13,952	14,096
Intangible assets	2,725	6,588	6,595	6,606	6,623
Tangible assets	83	65	84	95	112
Assets held for sale	8,830	13,150	7,216	7,252	7,361
Other LT assets	7	0	0	0	0
Total assets	34,531	35,652	33,524	39,854	44,581
Shareholders' equity & debt					
Current liabilities, total	12,157	11,261	8,172	8,465	9,028
Accounts payable	706	255	167	112	310
Provisions	2,265	1,523	1,553	1,585	1,616
ST debt	4,498	3,434	100	100	100
Other current liabilities	4,688	6,049	6,351	6,669	7,002
Long-term liabilities, total	3,514	3,851	4,091	3,981	4,119
Deferred tax assets	939	1,730	1,851	1,981	2,119
LT debt	2,575	2,121	2,240	2,000	2,000
Shareholders' equity, total	18,860	20,540	21,262	27,409	31,434
Total consolidated equity and debt	34,531	35,652	33,524	39,854	44,581
Ratios					
Current ratio (x)	1.9	1.4	2.4	3.1	3.4
Net debt	4,108	3,608	-2,203	-7,449	-10,229
Net gearing	22%	18%	-10%	-27%	-33%
Return on equity (ROE)	25.5%	8.2%	3.4%	22.4%	12.8%
Capital employed (CE)	29,188	33,108	28,463	29,834	31,572
Return on capital employed (ROCE)	25%	8%	2%	30%	18%



CASH FLOW STATEMENT

in € '000	2014	2015	2016E	2017E	2018E
Net income	4,808	1,689	722	6,147	4,025
Depreciation & amortisation	21	28	25	31	53
Revaluation result	-1,475	-3,943	-66	-36	-109
Financial result	317	190	120	89	84
Tax Result	2,162	840	-397	2,634	1,725
Change in receivables/ other assets	-1,529	6,181	-150	-142	-585
Change in payables and other liabilities	-842	-1,928	366	423	702
Operating cash flow	3,462	3,057	620	9,146	5,895
Tax paid	-35	-24	397	-2,634	-1,725
Interest income	1	7	38	0	0
Net operating cash flow	3,428	3,040	1,055	6,512	4,170
Purchase PP&E	-50	-9	-25	-31	-53
Purchase intangibles	-36	-4,250	-17	-20	-35
Investment property	171	-109	4,957	-1,127	-1,217
Cash flow from investing	85	-4,368	4,914	-1,178	-1,305
Dividend paid to shareholders	0	0	0	0	0
Debt inflow, net	-263	562	-3,215	-240	0
Equity inflow, net	-361	-9	0	0	0
Interest expense	-341	-243	-158	-89	-84
Cash flow from financing	-965	310	-3,373	-329	-84
Cash, start of the year	417	2,965	1,947	4,543	9,549
Change in cash, net	2,548	-1,018	2,596	5,005	2,781
Cash, end of the year	2,965	1,947	4,543	9,549	12,329
Free cash flow (FCF)	3,513	-1,328	5,969	5,334	2,865
FCF/share (in €)	0.20	-0.07	0.32	0.28	0.15
Y-Y Growth					
Net operating cash flow	n.m.	-11.3%	-65.3%	517.4%	-36.0%
Free cash flow	n.m.	n.m.	n.m.	-10.6%	-46.3%
FCF/share	n.m.	n.m.	n.m.	-10.6%	-46.3%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	23 July 2014	€0.95	Buy	€2.10
2...1	↓	↓	↓	↓
2	23 July 2014	€0.95	Buy	€2.10
3	10 September 2014	€1.43	Buy	€2.70
4	13 November 2015	€1.28	Buy	€2.80
5	Today	€1.19	Buy	€2.80

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First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

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:

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

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.

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

SUBJECT TO CHANGE

The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

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/>

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