

CR Capital Real Estate AG

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

2016 Annual Results

RATING
PRICE TARGET
 Return Potential
 Risk Rating

BUY
€ 2.80
 75.3%
 High

FOCUS SHIFTS TO PROMISING LEIPZIG MARKET

Full year results were broadly ahead of our forecasts. Revenues rose some 95% Y/Y to €17.5m (FBe: €17m), thanks to the successful handover of the Berlin-Köpenick project. This drove an improvement in gross profit to €1.5m (2015: €0.1m). The company reported EBIT of €2.4m, which was boosted by revaluation gains on financial assets held. CR Capital generated some €2m in operating cash flow for the year and is well positioned for a strong 2017 with its Leipzig pipeline. Our updated valuation model yields still yields a value of €2.80 per share. Our rating remains Buy.

Well positioned for profitable 2017 Core project development activities are currently centred on the Schkeuditz project in Leipzig. After several early stage delays typical for project development activities, the company broke ground in April. We believe CR Capital will hand over the first completed flats this year and look for this to generate some €20m in revenue with good profitability, given excellent property market fundamentals pervasive in German hub cities. The Leipzig construction pipeline has a total volume of €150m, which we expect CR Capital to realise over the next five years providing excellent visibility. The company has also secured another project pipeline in the eastern region of Germany to further boost mid-term visibility. Management are in early stage discussions with Dresden city officials on first development phases of the Weißig housing project. In our view, the German residential sector remains fundamentally attractive for property developers. The housing sector continues to be characterised by low levels of supply, and new-build completions are unable to keep pace with demand in German hubs. We expect this environment to persist over the mid-term.

Results driven by property sales The top line nearly doubled in 2016 (+95%), to €17.5m, thanks primarily to the disposal of two properties in the portfolio (Griegstraße 2 and Lilienthalstraße) in H1/16 for €8.4m and the handover of the Borgmannstraße 16 project in H2/16 for some €9.0m in revenue. This was in line with our target (FBe: €8.9m). (p.i.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	18.34	8.97	17.50	20.42	26.57	32.57
Y-o-y growth	36.0%	-51.1%	95.1%	16.7%	30.1%	22.6%
EBIT (€m)	7.29	2.72	2.38	2.85	4.14	5.32
EBIT margin	39.7%	30.3%	13.6%	13.9%	15.6%	16.3%
Net income (€m)	4.81	1.69	2.17	2.60	3.61	4.45
EPS (diluted) (€)	0.28	0.09	0.12	0.14	0.19	0.24
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	3.51	-1.33	10.57	2.15	2.88	3.66
Net gearing	21.8%	17.6%	-14.6%	-21.3%	-28.3%	-35.2%
Liquid assets (€m)	2.97	1.95	5.44	7.48	10.27	13.85

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 as well as the surrounding region of Berlin.

MARKET DATA

As of 22 May 2017

Closing Price	€ 1.60
Shares outstanding	18.78m
Market Capitalisation	€ 30.00m
52-week Range	€ 1.10 / 2.00
Avg. Volume (12 Months)	15,704

Multiples	2016	2017E	2018E
P/E	13.9	11.6	8.3
EV/Sales	1.5	1.3	1.0
EV/EBIT	11.3	9.4	6.5
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2016

Liquid Assets	€ 5.44m
Current Assets	€ 11.20m
Intangible Assets	€ 6.59m
Total Assets	€ 27.38m
Current Liabilities	€ 610.63m
Shareholders' Equity	€ 22.70m

SHAREHOLDERS

MPH Group	60.0%
Free Float	40.0%



Operating costs were slightly lower in 2016 with personnel expenses dipping to €0.7m compared to €0.8m in the prior year. Other operating expenses amounted to €0.9m in 2016 vs €1.0 in the previous year. The company also booked strong revaluation gains of €1.6m on its portfolio helping to boost operating income to €2.4m for the year. This figure was well ahead of our projection, due to the higher than expected revaluation gains. Financing costs were kept in check at €0.2m (2015: €0.2m), thanks to favourable financing terms. The company also benefited from tax loss carry forwards (TLCF) and deferred tax gains from property sales. Thus, the tax expense amounted to only €47k. Net income of €2.2m translated into EPS of €0.12 per share for the year and beat our bottom line target.

Table 1: Results vs forecasts

All figures in EUR '000	2016	2016E	% delta	2015	% delta
Revenue	17,499	16,969	3.1%	8,970	95.1%
Gross profit	1,497	1,760	-14.9%	-103	-
Margin (%)	8.6%	10.4%	-	-	-
EBIT	2,377	445	434.2%	2,719	-12.6%
Margin (%)	13.6%	2.6%	-	30.3%	-
Net income	2,167	772	180.7%	1,689	28.3%
EPS diluted (€)	0.12	0.04	187.5%	0.09	28.3%

Source: First Berlin Equity Research; Company

CR Capital ended the year with total assets of €27.4m compared to €35.7m at the end of 2015. The decrease stems primarily from the planned property disposals. Investment properties decreased from €13.2m in 2015 to €9.2m at the end of 2016. Thanks to the positive net result, shareholders' equity increased to €22.7m allowing the equity ratio to climb to 83% (FY15: 58%) against the lower asset base. CR Capital also ended the period with a net cash position of €3.3m. In our view, this gives the company solid financing headroom for future projects.

Table 2: Balance sheet KPIs

All figures in EUR '000	2016	2015	Delta
Cash	5,441	1,947	179.5%
Assets held for sale	5,277	13,040	-59.5%
Investment properties	9,175	13,150	-30.2%
Total assets	27,378	35,651	-23.2%
Financial debt (short- and long-term)	2,116	2,121	-0.2%
Net debt	-3,325	174	-
Shareholders' equity	22,705	20,539	10.5%
Equity ratio	82.9%	57.6%	-

Source: First Berlin Equity Research; Company

Property disposals boost cash flows and cash position Operating cash flow benefited from a favourable working capital development from property sales resulting in cash flows of €2.0m for the year (FY15: €2.8m). Cash flow from investment activities for the period totalled €8.4m thanks chiefly to the payment from the disposal of the Lilienthalstraße property, whereas no significant investments were made during 2016. Free cash flow (FCF) thus amounted to €10.6m vs €7.6m in the previous year. Cash flow from financing amounted to €-3.4m, due to the reduction in debt load. CR Capital ended the period with cash on the balance sheet of €5.4m compared to €1.9m at the end of 2015.



MARKET OVERVIEW

Expect CR Capital to benefit from sector tailwinds We believe the German residential sector remains fundamentally attractive for property developers. The sector continues to be characterised by low levels of supply, and new-built completions are unable to keep pace with demand in German hubs. Market observers rank the supply-demand imbalance in Berlin as the most acute in Europe, due to the large net immigration figures.

The housing sector is spurred by sound economic fundamentals, a flourishing employment environment, and immigration-driven population expansion. Market observers contend that demand for office, retail, and apartment assets will persist even if economic growth softens, due to the acute shortage of space in the various asset classes. In our view, this environment provides a solid platform for German property developers to prosper over the near term.

Although the days of perennially low interest rates are reaching an end, market observers expect there to be a very slow recovery. Given the low base, we don't expect anything to materially change in the overall low interest rate environment this year.

Is Leipzig the next Berlin? This sentiment has been touted by *The New York Times* and *The Guardian*, fuelling international attention on the city with its thriving creative scene, green spaces and quality of living. Saxony's largest city has been nicknamed "Hypezig," and is beginning to attract private investors and large corporations. The city also boasts the nation's second largest freight airport behind Frankfurt am Main and has a booming service sector driving good economic fundamentals. Given these factors, we believe CR Capital has an excellent opportunity to generate significant returns with its Leipzig pipeline over the coming years.

Table 3: Changes to forecasts

All figures in € '000	2017E			2018E		
	old	new	% delta	old	new	% delta
Revenue	20,417	20,417	0.0%	35,421	26,571	-25.0%
Gross profit	10,233	4,158	-59.4%	7,161	5,391	-24.7%
Margin (%)	50.1%	20.4%	-	20.2%	20.3%	-
EBIT	8,870	2,845	-67.9%	5,834	4,144	-29.0%
Margin (%)	43.4%	13.9%	-	16.5%	15.6%	-
Net income	6,147	2,595	-57.8%	4,025	3,613	-10.2%
EPS diluted (€)	0.33	0.14	-57.8%	0.21	0.19	-10.2%

Source: First Berlin Equity Research; Company

Maintain Buy rating Our top line forecasts for 2017 are unchanged, given our view that construction in Leipzig remains on track for the initial handovers this year. CR Capital plans to hand over a total of 96 terrace homes through the end of 2018. We have also shifted revenues expected in 2018 into the later years of the project. The reduction in our 2017 EBIT target stems mainly from adjustment to our gross margin expectation. We had originally calculated an exceptionally high gross margin for the initial Leipzig handovers but have dialled this back to reflect a normalised scenario after the company had to bring in new sub-contractors once construction planning was finalised. We expect the company to also realise TLCF benefits over the next two years as well some tax breaks associated with share deals for Leipzig. Our updated DCF model yields an enterprise value (EV) of €52.6m equal to €2.80 per share. Our rating remains Buy.



VALUATION MODEL

All figures in € '000	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	20,417	26,571	32,571	43,671	43,625	36,335	36,975	44,980
NOPLAT	1,992	2,901	3,726	5,261	20,624	4,236	4,322	5,432
+ Depreciation & amortisation	31	40	49	66	65	55	55	67
- Revaluation profits	-44	-133	-135	-137	-139	-141	-143	-145
Net operating cash flow	1,978	2,808	3,641	5,190	20,551	4,150	4,234	5,355
- total investments (CAPEX and WC)	-711	-1,014	-1,096	-1,354	-1,352	-735	-1,320	-1,677
Capital expenditures	-51	-66	-81	-109	-109	-91	-92	-112
Working capital	-660	-947	-1,014	-1,244	-1,243	-645	-1,228	-1,565
Free cash flows (FCF)	1,268	1,794	2,545	3,836	19,199	3,414	2,914	3,677
PV of FCF's	1,190	1,518	1,940	2,635	11,885	1,905	1,465	1,666

All figures in '000	
PV of FCFs in explicit period (2017-2028E)	30,293
PV of FCFs in terminal period	18,998
Enterprise value (EV)	49,291
+ Net cash / - net debt	3,317
+ Investments / minority interests	0
Shareholder value	52,608
Fair value per share in EUR	2.80

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 2024 but runs until 2028

		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	8.0%	3.70	3.83	3.98	4.15	4.35	4.59	4.89
	9.0%	3.27	3.35	3.45	3.57	3.70	3.86	4.04
	10.0%	2.92	2.99	3.06	3.14	3.23	3.33	3.45
	11.0%	2.64	2.69	2.74	2.80	2.87	2.94	3.02
	12.0%	2.41	2.45	2.49	2.53	2.58	2.63	2.69
	13.0%	2.22	2.25	2.28	2.31	2.35	2.39	2.43
	14.0%	2.06	2.08	2.10	2.13	2.16	2.18	2.22



INCOME STATEMENT

in € '000	2014	2015	2016	2017E	2018E
Revenue	18,338	8,970	17,498	20,417	26,571
Cost of goods sold	-11,038	-9,073	-16,002	-16,258	-21,180
Gross profit	7,300	-103	1,496	4,158	5,391
Personnel expenses	-539	-785	-706	-713	-720
Depreciation & amortisation	-21	-28	-23	-31	-40
Other impairments	-63	-704	0	0	0
Other operating expenses	-2,310	-995	-853	-862	-870
Other operating income	1,445	1,391	813	248	250
Revaluation gains	1,475	3,943	1,649	44	133
Operating income (EBIT)	7,287	2,719	2,376	2,845	4,144
Interest expense	-358	-246	-176	-84	-84
Interest income	41	56	12	0	0
Pre-tax income (EBT)	6,970	2,529	2,212	2,761	4,060
Tax expense	-2,162	-840	-46	-166	-447
Net income / loss	4,808	1,689	2,166	2,595	3,613
Diluted EPS (in €)	0.28	0.09	0.12	0.14	0.19
EBITDA	7,308	2,747	2,399	2,876	4,184
Ratios					
Gross margin	39.8%	-1.1%	8.5%	20.4%	20.3%
EBIT margin on revenues	39.7%	30.3%	13.6%	13.9%	15.6%
EBITDA margin on revenues	39.9%	30.6%	13.7%	14.1%	15.7%
Net margin on revenues	26.2%	18.8%	12.4%	12.7%	13.6%
Tax rate	31.0%	33.2%	-122.0%	6.0%	11.0%
Expenses as % of revenues					
Personnel expenses	2.9%	8.8%	4.0%	3.5%	2.7%
Other operating expenses	12.6%	11.1%	4.9%	4.2%	3.3%
Y-Y Growth					
Revenues	n.m.	-51.1%	95.1%	16.7%	30.1%
Operating income	n.m.	-62.7%	-12.6%	19.7%	45.6%
Net income/ loss	n.m.	-63.7%	-12.5%	24.8%	47.1%



BALANCE SHEET

in € '000	2014	2015	2016	2017E	2018E
Assets					
Current assets, total	22,886	15,849	11,199	14,219	17,889
Cash and cash equivalents	2,965	1,947	5,440	7,478	10,275
Accounts receivable	823	520	377	783	1,019
Other assets	266	308	171	176	181
ST financial assets	1,399	34	31	31	31
Assets held for sale	17,433	13,040	5,180	5,750	6,382
Non-current assets, total	11,645	19,803	16,182	15,866	16,025
Intangible assets	2,725	6,588	6,588	6,598	6,611
Tangible assets	83	65	32	42	55
Assets held for sale	8,830	13,150	9,179	8,843	8,976
Other LT assets	7	0	383	383	383
Total assets	34,531	35,652	27,380	30,084	33,914
Shareholders' equity & debt					
Current liabilities, total	12,157	11,261	611	608	671
Accounts payable	706	255	198	178	232
Provisions	2,265	1,523	221	225	230
ST debt	4,498	3,434	93	100	100
Other current liabilities	4,688	6,049	99	104	109
Long-term liabilities, total	3,514	3,851	4,063	4,175	4,328
Deferred tax assets	939	1,730	2,033	2,175	2,328
LT debt	2,575	2,121	2,030	2,000	2,000
Shareholders' equity, total	18,860	20,540	22,706	25,302	28,915
Total consolidated equity and debt	34,531	35,652	27,380	30,084	33,914
Ratios					
Current ratio (x)	1.9	1.4	18.3	23.4	26.7
Net debt	4,108	3,608	-3,317	-5,378	-8,175
Net gearing	22%	18%	-15%	-21%	-28%
Return on equity (ROE)	25.5%	8.2%	9.5%	10.3%	12.5%
Capital employed (CE)	29,188	33,108	21,158	21,838	22,811
Return on capital employed (ROCE)	25%	8%	11%	13%	18%



CASH FLOW STATEMENT

in € '000	2014	2015	2016	2017E	2018E
Net income	4,808	1,689	2,166	2,595	3,613
Depreciation & amortisation	21	28	23	31	40
Revaluation result	-1,475	-3,943	-1,649	-44	-133
Financial result	317	190	164	84	84
Tax Result	2,162	840	46	166	447
Change in receivables/ other assets	-1,529	6,181	7,743	-411	-241
Change in payables and other liabilities	-842	-1,928	-5,990	132	216
Operating cash flow	3,462	3,057	2,503	2,552	4,026
Tax paid	-35	-24	-329	-166	-447
Interest income	1	7	12	0	0
Net operating cash flow	3,428	3,040	2,186	2,387	3,579
Purchase PP&E	-50	-9	-12	-31	-40
Purchase intangibles	-36	-4,250	-3	-20	-27
Purchase investment property	171	-109	-376	-190	-632
Proceeds from investment property disposals	0	0	8,773	0	0
Cash flow from investing	85	-4,368	8,382	-241	-699
Dividend paid to shareholders	0	0	0	0	0
Debt inflow, net	-263	562	-3,433	-23	0
Equity inflow, net	-361	-9	0	0	0
Interest expense	-341	-243	-176	-84	-84
Cash flow from financing	-965	310	-3,609	-107	-84
Consolidation changes to financial assets	0	0	-3,467	0	0
Cash, start of the year	417	2,965	1,947	5,440	7,478
Change in cash, net	2,548	-1,018	6,959	2,039	2,796
Cash, end of the year	2,965	1,947	5,440	7,478	10,275
Free cash flow (FCF)	3,513	-1,328	10,568	2,146	2,880
FCF/share (in €)	0.20	-0.07	0.56	0.11	0.15
Y-Y Growth					
Net operating cash flow	n.m.	-11.3%	-28.1%	9.2%	50.0%
Free cash flow	n.m.	n.m.	n.m.	-79.7%	34.2%
FCF/share	n.m.	n.m.	n.m.	-79.7%	34.2%

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...2	↓	↓	↓	↓
3	13 October 2014	€1.34	Buy	€2.70
4	1 September 2015	€1.50	Buy	€2.80
5	13 October 2016	€1.19	Buy	€2.80
6	Today	€1.60	Buy	€2.80

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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.

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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%.

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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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