

CR Capital Real Estate AG

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

H1/19 &
 FY18 results

RATING
BUY

PRICE TARGET
€ 35.00

Return Potential 38.9%
 Risk Rating High

RAISING FORECASTS ON STRONG BUSINESS MOMENTUM

H1/19 results confirmed good project development momentum, while FY18 reporting showed strong revenue and earnings growth with net income topping €7.8m vs €5.8m in the prior year. The good full year performance owes chiefly to the successful handover of 96 terraced homes from phase I of the Leipzig project. The construction pipeline remains full (~ 1,000 units), while affordable housing trends remain supportive. We have raised our forecasts to account for much higher project development capacity. Our updated model now yields a €35 price target (old: €20). The recent AGM approved a 2:1 stock split, but management target an unchanged €1.5 dividend on 2019 earnings. The doubling of the payout should delight investors. Our rating remains Buy.

Expect good operational momentum to continue this year We believe CRC is on track to hand over the keys to up to 100 new flats this year. The developer continues to make good progress with phase II of its Leipzig project. And CRC is in early development stages of new projects in the Berlin exurbs (Velten, Stahnsdorf). Overall, we believe the company controls a development pipeline of some €100m, which management plan to realise over the next three years. Market trends remain supportive, due to an acute shortage of affordable housing that is making national headlines.

What else has changed? CR Capital continues to evolve faster than we had anticipated. The company has beefed up its staff with key personnel to increase development capacity. Management have also locked down contractors for the next three years. CR Capital projects are particularly attractive to builders, due to their modular construction, and the company offers good visibility. We believe CRC is now in a position to realise a much greater volume of projects than we had previously forecasted and have ratcheted up our projections once again. We now think the company can deliver < 200 units in 2020 and < 250 units in the following year (old: 140 and 170 units respectively). This accounts for the sharp increase in our price target. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018	2019E	2020E
Revenue (€m)	8.97	17.50	10.41	26.31	40.52	52.58
Y-o-y growth	-51.0%	95.1%	-40.5%	152.8%	54.0%	29.8%
EBIT (€m)	2.72	2.38	3.99	11.56	11.90	15.91
EBIT margin	30.3%	13.6%	38.4%	43.9%	29.4%	30.3%
Net income (€m)	1.69	2.17	5.77	7.80	10.00	12.57
EPS (diluted) (€)	0.45	0.58	1.54	2.08	2.66	3.35
DPS (€)	0.00	0.00	1.00	1.50	1.50	1.67
FCF (€m)	-1.33	10.57	-10.19	10.03	5.20	7.47
Net gearing	17.6%	-14.6%	24.7%	-5.6%	-3.6%	-6.6%
Liquid assets (€m)	1.95	5.44	1.98	3.94	6.39	8.03

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 is a property developer focused on the residential segment of the Berlin, Brandenburg, and Leipzig regions. The Berlin-based company specialises in the construction of affordable housing and is listed on the Open Market of the Frankfurt Stock Exchange.

MARKET DATA

As of 27 Sep 2019

Closing Price	€ 25.20
Shares outstanding	3.76m
Market Capitalisation	€ 94.68m
52-week Range	€ 12.20 / 27.00
Avg. Volume (12 Months)	2,880

Multiples	2018	2019E	2020E
P/E	12.1	9.5	7.5
EV/Sales	3.8	2.5	1.9
EV/EBIT	8.6	8.4	6.2
Div. Yield	6.0%	6.0%	6.6%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	€ 4.07m
Current Assets	€ 14.80m
Intangible Assets	€ 10.41m
Total Assets	€ 45.09m
Current Liabilities	€ 7.99m
Shareholders' Equity	€ 30.49m

SHAREHOLDERS

MPH Group	61.0%
Free Float	39.0%



REPORTING SUPPORTIVE OF POSITIVE VIEWS

Solid start to the year Six month results reflected the good incremental progress of development activities in Leipzig and the Berlin exurbs. Revenue amounted to €6.3m leading to operating profit of €4.6m in H1. EBIT totalled €3.1m, while net income reached €3.5m for the period compared to €2.1m in H1/18. The H1/19 bottom line benefited from a €0.5m tax result vs €-1.4m in the prior year period. We believe the company is in a good position to grow the bottom line by > 25% on an annualised basis this year.

Table 1: Six month results vs forecasts and prior year

All figures in EUR '000	H1/19	H1/19E	Variance	H1/18	Variance
Revenue	6,324	8,480	-25.4%	12,830	-50.7%
EBIT	3,091	4,065	-24.0%	3,667	-15.7%
Margin (%)	48.9%	47.9%	-	28.6%	-
Net income	3,467	2,353	47.3%	2,104	64.8%
EPS diluted (€)	0.92	0.63	-	0.56	64.8%

Source: First Berlin Equity Research; CR Capital Real Estate

RECORD SETTING FULL YEAR RESULTS

Record revenue and earnings beat targets Revenue of €26m more than doubled (+152%) on an annualised basis spurred by strong project development activities in Leipzig. The company confirmed the handover of 96 flats from its Schkeuditz project last year. Revenue and EBIT (€12m) overshot our projections. CR Capital (CRC) booked higher than expected revaluation gains of ~€10m on its investment properties, which increased to €19m in 2018 vs €11m in the previous year. This accounted for the high variance to our EBIT target (FBe: €9m).

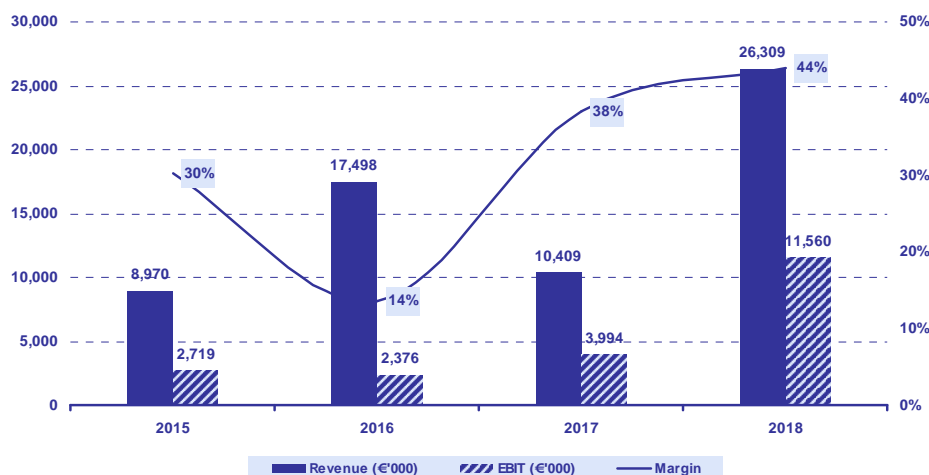
Table 2: Results vs forecasts and prior year

All figures in EUR '000	2018	2018E	Variance	2017	Variance
Revenue	26,309	23,122	13.8%	10,409	152.8%
EBIT	11,560	8,909	29.8%	3,994	189.4%
Margin (%)	43.9%	38.5%	-	38.4%	-
Net income	7,800	7,653	1.9%	5,767	35.2%
EPS diluted (€)	2.08	4.08	-49.1%	1.54	35.2%

Source: First Berlin Equity Research; CR Capital Real Estate

Revenue contained some €0.8m in rental income from properties held on the balance sheet, while property sales generated €25.5m of the top line performance. The latter more than doubled (+150%) the prior year figure. Management have hinted that the company may increase its own portfolio over the long term to capture attractive rental income and FFO streams. However, we expect Build and Sell strategy to remain at the forefront of revenue growth.

Operating income hit a record level at €11.6m in 2018, thanks to core project development activities. CRC's ability to create value with its pipeline in an apartment-starved market environment led to a jump in revaluation gains to €10.3m (2017: €0m). Adjusted for these non-cash revaluation gains, EBITDA totalled €1.3m for the year compared to €4.6m in 2017. We expect revaluation gains to remain strong in the near term with a narrowing of the demand / supply gap seemingly years away.


Figure 1: Revenue and earnings developments


Source: First Berlin Equity Research; CR Capital Real Estate

Management plan to keep €1.5 / share dividend Last year, CR Capital rewarded investors with a first time dividend of €1 per share, which was increased to €1.5 this year. The board has already hinted at maintaining the €1.5 payout, despite the AGM approved 2:1 stock split. The gratis shares will effectively double the dividend payout on 2019 earnings.

Balance sheet highlighted by 10 percentage point rise in equity ratio Total assets climbed to €45m (2017: €42m), stemming mainly from the increase in investment properties. This line item rose 76% to €19m, thanks to value extraction of the projects and revaluation gains. CR Capital also sold the MED medical centre acquired in 2017, which offset some of the portfolio uplift. The company did not publish a breakdown of its investment properties in the annual report.

The decline in receivables to €0.3m (2017: €2.2m) is traced to the handovers in Schkeuditz. Financial debt was reduced from €9m in 2017 to €2m at YE18 stemming from debt retirements coupled to disposals. Net debt subsequently reversed into a net cash position totalling €2m at the end of the 2018. The company exited the year with €3.9m in cash and cash equivalents.

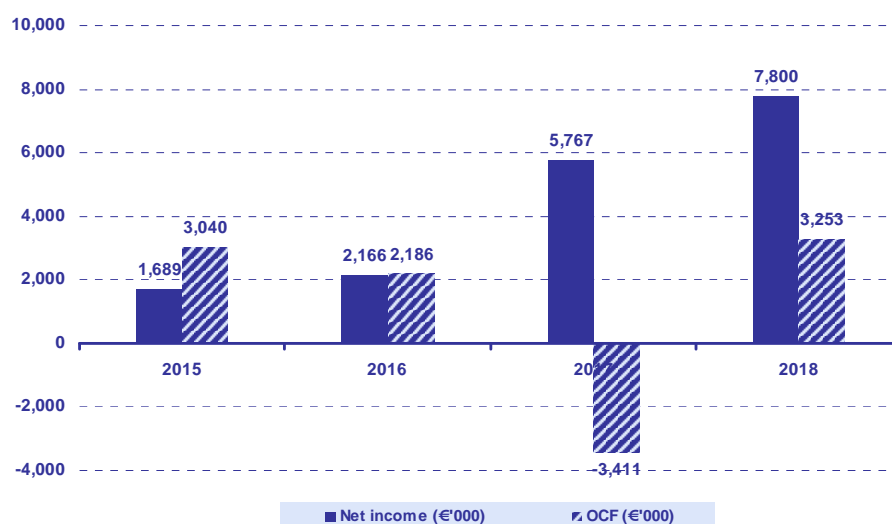
Table 3: Balance sheet developments

All figures in EUR '000	2018	2017	Variance
Cash	3,940	1,984	98.6%
Assets held for sale	1,810	9,381	-80.7%
Investment properties	19,064	10,852	75.7%
Total assets	45,439	42,066	8.0%
Financial debt (short- and long-term)	1,944	9,016	-78.4%
Net debt	-1,996	7,032	-
Shareholders' equity	35,405	28,388	24.7%
Equity ratio	77.9%	67.5%	-

Source: First Berlin Equity Research; CR Capital Real Estate

Ample financial flexibility to execute Last year, the AGM passed a resolution granting management the authority to issue a variety of financial instruments including convertible notes, participation certificates or suitable combinations thereof for up to €50m to finance growth. This should give management the ability to act swiftly when repopulating the pipeline with attractive projects.

Figure 2: Cash flow developments



Source: First Berlin Equity Research; CR Capital Real Estate

Cash flows up on operating performance Net operating cash flow amounted to €3.3m vs €-3.4m in 2017. The good performance owes to the strong net income figure and working capital conversion. Cash flow from investing totalled €6.8m and was boosted by the aforementioned “MED” disposal, which netted proceeds of €8.7m (BV ~€8.3m) to offset property investments of €-1.5m. FCF thus totalled €10m in 2018 compared to €-10m in the previous year, which was impacted by high WC consumption and property investments. Cash flow from financing equalled €-8.0m owing chiefly to debt repayments (€-7.0m) and the dividend payout of €-1.8m on 2017 earnings.

Table 4: Changes to forecasts and price target

	old	new	revision	upside	dividend yield	
Price target (€)	20.0	35.0	75.0%	38.9%	6.0%	
	2019E			2020E		
All figures in € '000	old	new	revision	old	new	revision
Revenue	33,453	40,516	21.1%	37,206	52,581	41.3%
EBIT	12,682	11,899	-6.2%	14,209	15,908	12.0%
Margin (%)	37.9%	29.4%	-	38.2%	30.3%	-
Net income	11,001	9,997	-9.1%	12,012	12,567	4.6%
EPS diluted (€)	2.93	2.66	-9.1%	3.20	3.35	4.6%

Source: First Berlin Equity Research estimates

Reasons for optimism We expect this year to be shaped chiefly by phase II activities at the Schkeuditz project in Leipzig. CR Capital also plans to break ground for planned duplex units located in the Berlin exurbs (Stahnsdorf), while working through the permitting process for the Velten project. Management also continues to assess new projects in its core regions to replenish the early stage pipeline.



In our view market tailwinds remain strong, given the much publicised housing shortage and soaring rents. CRC specialises in the construction of affordable housing predominantly in Leipzig, Berlin, and the Berlin exurbs and is well positioned to service a booming segment. Recent data shows that only about 6% of housing developers focus on affordable housing in the Berlin-Brandenburg region, while > 60% of demand is for housing with a < €0.3m price tag.

While the regulator continues to grapple with rising rent levels, we believe it will eventually address the overarching issue – sputtering construction and supply has barely made a dent in the nationwide 1.9m apartment shortage. As long as CRC can secure its development pipeline, we see plenty of work to be done to meet frenzied demand.

We had previously underestimated these factors given the short company track record. We now expect the company to complete higher volumes and have raised our targets. Our 2019 earnings targets dip on lower non-cash revaluation gain and higher tax expense assumptions. We still expect the bottom line to grow >25% Y/Y.



VALUATION MODEL

All figures in € '000		2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net sales		40,516	52,581	64,601	71,043	78,128	85,928	94,501	103,932
NOPLAT		8,329	11,135	13,934	15,467	17,175	17,882	18,541	19,128
(+) Depreciation & amortisation		61	79	97	107	117	129	142	156
(-) Revaluation profits		-462	-539	-635	-760	-894	-1,040	-1,197	-1,358
Net operating cash flow		7,928	10,676	13,396	14,814	16,398	16,972	17,486	17,926
(-) Capital expenditures		-2,246	-3,222	-5,104	-5,429	-5,795	-6,205	-7,166	-6,687
(-) Working capital		-2,359	-1,691	-2,369	-1,095	-1,250	-1,357	-1,546	-1,763
Free cash flows (FCF)		3,322	5,762	5,923	8,290	9,353	9,410	8,774	9,477
PV of FCF's		3,240	5,143	4,838	6,196	6,398	5,890	5,026	4,968

		Terminal EBIT margin							
		23.7%	24.7%	25.7%	26.7%	27.7%	28.7%	29.7%	
PV of FCFs in explicit period (2018-2028E)	52,160	6.3%	47.00	52.00	57.00	61.00	66.00	70.00	75.00
PV of FCFs in terminal period	76,015	7.3%	39.00	42.00	46.00	49.00	52.00	56.00	59.00
Enterprise value (EV)	128,175	8.3%	33.00	35.00	38.00	41.00	43.00	46.00	48.00
Net cash / - net debt	1,996	9.3%	28.00	31.00	33.00	35.00	37.00	39.00	41.00
Investments / minority interests	0	10.3%	25.00	27.00	28.00	30.00	32.00	33.00	35.00
Shareholder value	130,171	11.3%	23.00	24.00	25.00	27.00	28.00	29.00	31.00
Fair value per share in EUR	35.00	12.3%	20.00	22.00	23.00	24.00	25.00	26.00	27.00

		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	11.8%	6.3%	49.00	52.00	56.00	61.00	67.00	75.00	86.00
Pre-tax cost of debt	5.0%	7.3%	41.00	43.00	46.00	49.00	53.00	57.00	63.00
Tax rate	30.0%	8.3%	35.00	37.00	39.00	41.00	43.00	46.00	49.00
After-tax cost of debt	3.5%	9.3%	31.00	32.00	33.00	35.00	36.00	38.00	40.00
Share of equity capital	70.0%	10.3%	27.00	28.00	29.00	30.00	31.00	33.00	34.00
Share of debt capital	30.0%	11.3%	25.00	25.00	26.00	27.00	27.00	28.00	29.00
WACC	9.3%	12.3%	22.00	23.00	23.00	24.00	24.00	25.00	26.00

*for layout purposes the model shows only to 2025 but runs until 2028



INCOME STATEMENT

in € '000	2016	2017	2018	2019E	2020E	2021E
Rental and operating income	17,498	10,409	26,309	40,516	52,581	64,601
Cost of goods sold	-16,002	-10,777	-22,118	-26,741	-34,704	-42,637
Personnel expenses	-706	-1,208	-1,633	-1,747	-1,887	-2,000
Other impairments	0	-24	-17	0	0	0
Other operating expenses	-853	-1,128	-1,444	-1,531	-1,622	-1,720
Other operating income	813	7,013	150	1,000	1,080	1,123
Revaluation gains	1,649	0	10,347	462	539	635
EBITDA	2,399	4,285	11,594	11,960	15,987	20,003
Depreciation & amortisation	-23	-291	-34	-61	-79	-97
Operating income (EBIT)	2,376	3,994	11,560	11,899	15,908	19,906
Interest expense	-176	-117	-212	-138	-199	-199
Interest income	12	0	1	0	0	0
Pre-tax income (EBT)	2,212	3,877	11,350	11,761	15,709	19,707
Tax expense	-46	1,890	-3,550	-1,764	-3,142	-4,336
Net income / loss	2,166	5,767	7,800	9,997	12,567	15,371
Diluted EPS (in €)	0.58	1.54	2.08	2.66	3.35	4.09
Adjusted EBITDA	750	4,285	1,247	11,497	15,448	19,367
Ratios						
EBITDA margin on revenues	13.7%	41.2%	44.1%	29.5%	30.4%	31.0%
EBIT margin on revenues	13.6%	38.4%	43.9%	29.4%	30.3%	30.8%
Net margin on revenues	12.4%	55.4%	29.6%	24.7%	23.9%	23.8%
Tax rate	2.1%	-48.7%	31.3%	15.0%	20.0%	22.0%
Expenses as % of revenues						
Personnel expenses	4.0%	11.6%	6.2%	4.3%	3.6%	3.1%
Other operating expenses	4.9%	10.8%	5.5%	3.8%	3.1%	2.7%
Y-Y Growth						
Revenues	95.1%	-40.5%	152.8%	54.0%	29.8%	22.9%
Operating income	-12.6%	68.1%	189.4%	2.9%	33.7%	25.1%
Net income/ loss	28.3%	166.2%	35.2%	28.2%	25.7%	22.3%



BALANCE SHEET

in € '000	2016	2017	2018	2019E	2020E	2021E
Assets						
Current assets, total	11,199	14,136	9,309	14,622	18,284	22,151
Cash and cash equivalents	5,440	1,984	3,940	6,391	8,030	9,197
Accounts receivable	377	2,187	268	2,220	2,881	3,540
Other assets	171	438	155	160	164	169
ST financial assets	31	146	3,136	3,136	3,136	3,136
Assets held for sale	5,180	9,381	1,810	2,715	4,073	6,109
Non-current assets, total	16,182	27,933	36,130	38,777	42,459	48,101
Intangible assets & goodwill	6,588	16,979	16,987	17,006	17,033	17,065
Tangible assets	32	96	76	96	123	155
Investment properties	9,179	10,854	19,064	21,672	25,301	30,878
Other LT assets	383	4	3	3	3	3
Total assets	27,380	42,068	45,439	53,399	60,743	70,252
Shareholders' equity & debt						
Current liabilities, total	611	1,774	1,484	2,011	2,368	2,726
Accounts payable	198	562	601	1,099	1,426	1,752
Provisions	221	252	325	332	338	345
ST debt	93	386	110	110	110	110
Other current liabilities	99	575	448	470	494	519
Long-term liabilities, total	4,063	11,905	8,549	11,619	11,673	11,737
Deferred tax assets	2,033	3,289	6,715	6,761	6,815	6,879
LT debt	2,030	8,616	1,834	4,858	4,858	4,858
Shareholders' equity, total	22,706	28,390	35,406	39,769	46,702	55,790
Total consolidated equity and debt	27,380	42,068	45,439	53,399	60,743	70,252
Ratios						
Current ratio (x)	18.3	8.0	6.3	7.3	7.7	8.1
Net debt	-3,317	7,018	-1,996	-1,423	-3,062	-4,229
Net gearing	-15%	25%	-6%	-4%	-7%	-8%
Return on equity (ROE)	10%	20%	22%	25%	27%	28%
Capital employed (CE)	23,456	41,985	46,840	51,868	57,270	65,318
Return on capital employed (ROCE)	9%	19%	18%	21%	24%	26%



CASH FLOW STATEMENT

in € '000	2016	2017	2018	2019E	2020E	2021E
Net income	2,166	5,767	7,800	9,997	12,567	15,371
Depreciation & amortisation	23	291	34	61	79	97
Revaluation result	-1,649	-158	-10,348	-462	-539	-635
Financial result	164	116	210	138	199	199
Tax Result	46	-1,733	3,550	1,764	3,142	4,336
Change in receivables/ other assets	7,743	-8,060	1,568	-1,957	-666	-664
Change in payables and other liabilities	-5,990	366	485	573	411	421
Operating cash flow	2,503	-3,411	3,299	10,114	15,193	19,125
Tax paid	-329	0	-47	-1,764	-3,142	-4,336
Interest income	12	0	1	0	0	0
Net operating cash flow	2,186	-3,411	3,253	8,350	12,052	14,789
Purchase PP&E	-12	-68	-21	-61	-79	-97
Purchase intangibles	-3	-1	0	-41	-53	-65
Purchase investment property	-376	-8,326	-1,461	-4,957	-6,616	-8,496
Proceeds from investment property disposals	8,773	1,612	8,660	1,906	2,167	1,518
Purchase of financial assets	0	0	-400	0	0	0
Cash flow from investing	8,382	-6,783	6,778	-3,151	-4,580	-7,140
Dividend paid to shareholders	0	0	-1,834	-5,634	-5,634	-6,284
Debt inflow, net	-3,433	6,878	-7,057	3,024	0	0
Equity inflow, net	0	-84	1,033	0	0	0
Interest expense	-176	-117	-211	-137	-199	-199
Cash flow from financing	-3,609	6,677	-8,069	-2,747	-5,833	-6,482
Consolidation changes to financial assets	-3,467	61	-6	0	0	0
Cash, start of the year	1,947	5,440	1,984	3,940	6,391	8,030
Change in cash, net	6,959	-3,517	1,962	2,451	1,639	1,167
Cash, end of the year	5,440	1,984	3,940	6,391	8,030	9,197
Free cash flow (FCF)	10,568	-10,194	10,031	5,198	7,472	7,650
FCFPS (in €)	2.81	-2.71	2.67	1.38	1.99	2.04
Y-Y Growth						
Net operating cash flow	-28.1%	n.m.	n.m.	156.7%	44.3%	22.7%
Free cash flow	n.m.	n.m.	n.m.	-48.2%	43.7%	2.4%
FCFPS	n.m.	n.m.	n.m.	-48.2%	43.7%	2.4%

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	€10.50
2...4	↓	↓	↓	↓
5	13 October 2016	€1.19	Buy	€14.00
6	23 May 2017	€1.60	Buy	€14.00
7	29 April 2019	€31.80	Buy	€20.00
8	Today	€25.20	Buy	€35.00

Authored by: Ellis Acklin, Analyst

Company responsible for preparation:

First Berlin Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 83 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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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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