

# ERWE Immobilien AG

WKN: A1X3WX | ISIN: DE000A1X3WX6 | Bloomberg: ERWE

## ERWE continued growth course in H1/22

**H1/22 with further organic growth:** ERWE was able to increase its gross rental revenues by 22% in H1/22, thus slightly exceeding our expectations. The corresponding earnings rose disproportionately by almost 30%. In addition to strict cost control, the two new portfolio properties contributed to this in particular.

EURm	H1/21	H1/22 reported	FMR H1/22e
Gross rental revenue (GRR)	3.66	4.46	4.30
EBIT	0.73	0.11	0.15
Consolidated net income	-2.83	-3.18	-2.70

Source: ERWE, FMR

The occupancy rate remained unchanged compared with Dec. 2021 at 89.3%, with increased space of 90,066m<sup>2</sup>. In particular due to a decline in the valuation result to EUR 0.54m (last year: EUR 1.66m), there was a higher negative consolidated result.

**Further development of existing properties:** According to company information, negotiations are currently underway for the re-letting of 6,700m<sup>2</sup> of existing properties. This will lead to a further increase in gross rental revenues due to mixed use and will also increase the future valuation of the corresponding properties. The two new properties in Bremerhaven and Wuppertal will lead to further increases in rental income in the second half of the year. However, the further development of the properties also requires further investments; the cash inflow from the last capital increase will also be used for this purpose, among other things.

**Financial targets for 2022 confirmed:** ERWE continues to target gross rental revenues of over EUR 10m and we confirm our estimate of EUR 10.1m. We have become somewhat more cautious with the earnings ratios, which should be seen more as "fine-tuning". We also assume further growth after 2022e. We expect EPRA NRV to grow in absolute terms to EUR 86m (+11.4%); per share, the higher number of shares results in a value of EUR 3.50.

**Our price target falls slightly to EUR 2.70 per share (-3.6%). Thus, the share still has considerable upside potential. "BUY" recommendation confirmed.**

FY End: 31.12.; in EURm	CAGR (20-23e)	2018	2019	2020	2021	2022e	2023e
Gross rental revenue (GRR)	26.3%	2.8	3.5	5.6	7.9	10.1	11.3
EBIT	22.8%	9.5	11.5	3.9	-4.8	3.1	7.2
Net income	134.2%	4.9	8.7	0.1	-10.2	-2.8	1.3
EPS, EUR	101.9%	0.35	0.40	0.01	-0.43	-0.10	0.07
EPRA NRV per share, EUR	-9.8%	n.a.	4.77	4.87	4.23	3.50	3.57
Net Debt	7.6%	39.2	64.7	127.6	139.3	156.6	158.8
EV		75.3	101.4	160.3	164.3	171.1	181.8
EV/GRR		27.4	29.3	28.7	20.8	16.9	16.1
EV/EBIT		8.0	8.8	41.0	-34.2	55.1	25.1
Net Debt/EBITDA		4.1	5.5	30.7	-30.7	46.3	21.1

Source: ERWE, FMR

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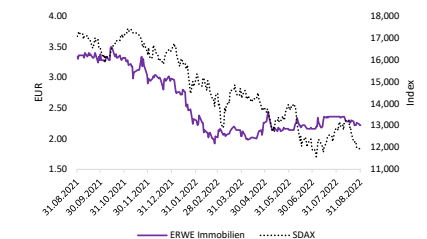
**BUY**

Before: BUY

Target price **EUR 2.70 (2.80)**  
Share price\* EUR 2.22 (+21.6%)

\*last closing price Börse Frankfurt

Change	2021	2022e	2023e
GRR	0.0	0.0	0.0
EBIT	0.0	-0.3	-0.2
EPS, EUR	0.00	-0.02	-0.01



Source: Börse Frankfurt, FMR

### Basic share data

Number of shares (millions)	24.56
Free float (in %)	14.5%
Market Cap (in EURm)	54.5
Trading vol. (Ø 30 days)	1,589
High (EUR, 52 weeks)	3.50
Low (EUR, 52 weeks)	1.92

### Shareholder structure

RW Property Investment GmbH	20.9%
Stapelfeld Beteiligungs GmbH	25.1%
Elbstein AG	37.3%
ERWE Real Estate	2.2%

### Company calendar

9M/22 report

Nov. 2022

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## Valuation Update

Following the published half-year figures, we have updated our model. We have slightly reduced our EBIT estimates for 2022e and 2023e and increased financial debt slightly. A positive effect results from the shortening of the 2022 period during the year.

### ERWE: DCF model leads to slightly lower target price of EUR 2.70 per share

EURm	Phase 1			Phase 2						Phase 3	
	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	∞
Gross rental revenue	10.1	11.3	13.1	14.9	16.7	18.7	20.6	22.7	24.8	26.7	
Growth rate	80.7%	11.5%	16.4%	13.7%	12.3%	11.5%	10.7%	9.9%	9.2%	7.8%	
EBIT	3.1	7.2	8.9	10.6	12.4	14.3	16.5	19.0	20.8	24.7	
Taxes	0.4	-0.1	-0.3	-0.5	-0.6	-0.8	-1.0	-1.3	-1.5	-1.8	
Tax rate	12.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Depreciation & amortization	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.5	
Net Working Capital	0.6	3.0	0.7	0.6	0.5	0.4	0.4	0.4	0.3	0.3	
Net capital expenditure	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.7	
<b>Free cash flow</b>	<b>4.1</b>	<b>10.1</b>	<b>9.3</b>	<b>10.7</b>	<b>12.2</b>	<b>13.8</b>	<b>15.7</b>	<b>17.9</b>	<b>19.5</b>	<b>23.0</b>	
<b>Present value</b>	<b>4.0</b>	<b>9.0</b>	<b>7.5</b>	<b>7.9</b>	<b>8.2</b>	<b>8.6</b>	<b>8.9</b>	<b>9.3</b>	<b>9.2</b>	<b>9.9</b>	<b>143.8</b>
Present value Phase 1	20.5										
Present value Phase 2	62.0										
Present value Phase 3	143.8										
<b>Total present value</b>	<b>226.3</b>										
+ Excess cash/Non-operating assets	1.9										
- Financial debt	-158.5										
- Minority interests	-2.9										
<b>Fair value of equity</b>	<b>66.8</b>										
Number of shares (m)	24.56										
<b>Fair value per share (in EUR)</b>	<b>2.72</b>										

Risk free rate	2.0%	Target equity ratio	50%
Equity risk premium	10.0%	Beta	1.0
Debt risk premium	6.0%	WACC	9.0%
Tax shield (Phase 3)	30.0%	Terminal growth	2.0%

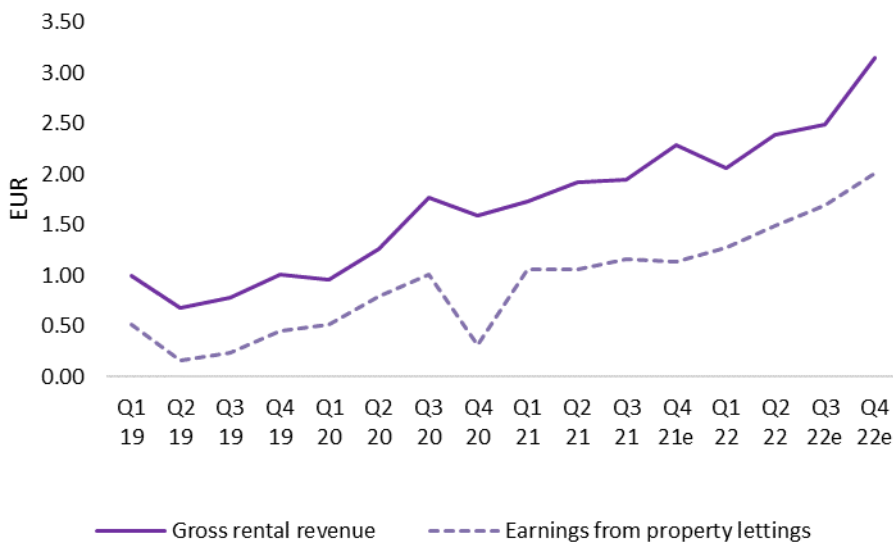
		Sensitivity analysis				
		Terminal growth rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	8.0%	3.41	3.93	4.54	5.26	6.11
	8.5%	2.62	3.06	3.56	4.14	4.83
	9.0%	1.94	2.30	2.72	3.20	3.76
	9.5%	1.34	1.65	1.99	2.39	2.85
	10.0%	0.81	1.07	1.36	1.70	2.08

Source: FMR

In total, our fair value is reduced slightly to rounded EUR 2.70 per share (-3,6%). At a current price of EUR 2.22, the ERWE share thus still has a significant upside potential of around 22%. We see the EPRA NRV for 2022e at EUR 3.50 per share; at the half-year point, the value according to ERWE was 3.46 euros. We confirm our "BUY" recommendation.

## Highlights H1/22 and outlook

ERWE succeeded in continuing the growth of the first quarter also in Q2/22. While gross rental revenues of EUR 2.07m (+19.4%) were generated in Q1/22, EUR 2.39m (+24.2%) were generated in Q2/22. In Speyer, rental payments were received from the Amedia Group for the first time in the entire half-year (in the previous year from April). This development is also reflected in the earnings from property lendings. It amounted to EUR 1.27m in Q1/22 (+19.9%) and to EUR 1.49m in Q2/22 (+29.8%). This reflects the further development of the portfolio properties with an expansion of rental space and improved rental income.

**ERWE: Successful further development of portfolio properties**


Source: ERWE, FMR

**Space development:** As of June 30, a leasable space of 90,066 m<sup>2</sup> is reported. The occupancy rate has fallen slightly compared with Q1/22 from 90.4% to 89.3%. However, this is partly planned, as the properties are being converted to mixed use. The space is therefore temporarily unavailable. This applies, for example, to the two properties in Darmstadt. At the locations in Speyer, Lübeck and Coesfeld, it was possible to extend the rental agreements with existing tenants for an area of 4,700 m<sup>2</sup>. Typically, the contracts run for three to five years. Negotiations are currently underway for new leases for a total of 6,700m<sup>2</sup>. This will help to increase rental income in 2023 onwards. ERWE had already reported that an eye clinic had been secured as a tenant for the Speyer site. A medical and healthcare center is in preparation at this location. The most recently acquired properties in Bremerhaven and Wuppertal (tenant in each case is C&A) have added 15,600 m<sup>2</sup>. Following conversion work still to be carried out, there will also be mixed use at these locations in future. First, however, investments will have to be made in the conversion work.

**Earnings performance:** In the first half of the year, adjusted EBIT amounted to EUR -0.14m compared to EUR 0.73m in 2021. This is due to increased personnel costs, a lower valuation result and lower earnings from the associated company (peko GmbH). As a pure project developer for ERWE, peko is affected by very irregular billing dates. For the full year, peko is expected to be in the black.

**Financial status:** ERWE received gross proceeds of EUR 9.5m from the capital increase in May. It is to be used for the further development of the real estate properties and for future acquisitions. As part of the transaction, Elbstein AG has become the largest shareholder with 37.3%. The equity ratio was 24.5% as of June 30. The LTV increased by around two percentage points to 69.6% compared to year-end 2021. The increase is explained by increased debt financing in connection with increased investments in new real estate properties.

ERWE has confirmed or concretized its **financial targets for 2022e**. Gross rental revenues are still expected to exceed EUR 10m. We confirm our estimate of EUR 10.1m and expect a further increase for 2023e. Adjusted EBIT is expected to increase significantly. Starting from EUR -4.8m for 2021, we expect around EUR 3.4m for 2022e. We see the LTV at just under 71% in 2022e, while ERWE aims to reach the level of the half-year (69.6%). According to our calculations, the EPRA NRV will increase in absolute terms to around EUR 86m (+11.5%). However, due to the higher number of shares following the capital increase, the per-share value will decline. We estimate EUR 3.50 for 2022e.

<b>Profit &amp; Loss</b>						
EURm	2018	2019	2020	2021	2022e	2023e
<b>Earnings from property lettings</b>	<b>1.2</b>	<b>1.4</b>	<b>2.6</b>	<b>4.4</b>	<b>6.5</b>	<b>7.6</b>
yoy change		18.4%	92.7%	68.0%	46.0%	17.4%
Gross rental revenue	2.8	3.5	5.6	7.9	10.1	11.3
yoy change		25.9%	61.3%	41.2%	28.0%	11.5%
Expenses from property lettings	-1.6	-2.1	-3.0	-3.5	-3.6	-3.7
yoy change		31.4%	40.8%	17.3%	5.0%	1.0%
Cost of operations	-2.4	-4.9	-9.4	-8.4	-9.2	-9.3
yoy change		102.5%	92.2%	-9.9%	8.9%	1.0%
Fair value adjustments of investment properties	9.6	12.6	6.8	-2.0	4.4	7.4
yoy change		30.9%	-46.0%	-129.6%	-320.0%	68.0%
Other operating income	1.1	0.8	1.2	1.2	1.3	1.4
yoy change		-24.6%	48.4%	-0.2%	6.0%	6.0%
<b>EBIT</b>	<b>9.5</b>	<b>11.5</b>	<b>3.9</b>	<b>-4.8</b>	<b>3.1</b>	<b>7.2</b>
yoy change		21.9%	-66.2%	-222.9%	-164.7%	133.0%
Financial result	-2.1	-3.3	-6.6	-6.7	-6.3	-5.8
as % of EBIT	22.0%	28.7%	168.5%	-140.6%	203.1%	79.7%
<b>EBT</b>	<b>7.4</b>	<b>8.2</b>	<b>-2.7</b>	<b>-11.5</b>	<b>-3.2</b>	<b>1.5</b>
yoy change		11.4%	n.a.	n.a.	n.a.	-145.8%
Taxes on income	-2.5	0.5	2.8	1.4	0.4	-0.1
as % of EBT	33.4%	-5.9%	103.8%	12.0%	12.0%	10.0%
<b>Consolidated net income</b>	<b>4.9</b>	<b>8.7</b>	<b>0.1</b>	<b>-10.2</b>	<b>-2.8</b>	<b>1.3</b>
yoy change		77.2%	-98.8%	n.a.	n.a.	-146.9%
Minorities	-0.4	-0.4	0.2	1.0	0.5	0.5
<b>Net income after minorities</b>	<b>4.5</b>	<b>8.3</b>	<b>0.3</b>	<b>-9.2</b>	<b>-2.3</b>	<b>1.8</b>
Number of shares	10.3	16.6	16.6	17.2	22.2	24.6
<b>EPS, EUR</b>	<b>0.35</b>	<b>0.40</b>	<b>0.01</b>	<b>-0.43</b>	<b>-0.10</b>	<b>0.07</b>

Source: ERWE, FMR

**Balance sheet**

EURm	2018	2019	2020	2021	2022e	2023e
<b>Assets</b>						
<b>Non-current assets</b>	<b>106.8</b>	<b>139.6</b>	<b>204.3</b>	<b>208.4</b>	<b>233.5</b>	<b>240.1</b>
as % of total assets	84.0%	85.8%	95.0%	94.7%	98.1%	95.5%
Property, plant and equipment and intangible assets	0.2	1.5	1.4	1.4	1.3	1.3
Investment properties	101.9	131.9	192.7	195.5	220.9	227.5
Interest in at-equity companies	4.6	6.2	8.8	1.4	1.2	1.2
<b>Current assets</b>	<b>20.3</b>	<b>23.0</b>	<b>10.8</b>	<b>11.7</b>	<b>4.5</b>	<b>11.2</b>
as % of total assets	16.0%	14.2%	5.0%	5.3%	1.9%	4.5%
Trade receivables and other receivables	0.2	0.3	0.6	0.6	0.6	0.6
Other receivables	0.0	0.6	1.0	0.9	0.9	0.9
Other financial assets	0.0	1.9	0.0	0.0	0.0	0.0
Other assets	1.0	1.0	1.3	1.6	1.1	1.1
Income tax receivables	0.0	0.1	0.0	0.0	0.0	0.0
Cash and cash equivalents	19.2	19.1	8.0	8.6	1.9	8.6
<b>Total Assets</b>	<b>127.1</b>	<b>162.6</b>	<b>215.2</b>	<b>220.1</b>	<b>238.0</b>	<b>251.4</b>
<b>Shareholder's equity and liabilities</b>						
<b>Total equity</b>	<b>49.6</b>	<b>58.3</b>	<b>58.4</b>	<b>53.5</b>	<b>60.7</b>	<b>62.0</b>
as % of total assets	39.0%	35.8%	27.1%	24.3%	25.5%	24.7%
Share capital	16.6	16.6	16.6	18.2	24.6	24.6
Capital reserve	11.0	11.0	11.0	14.7	17.4	17.4
Revenue reserves	14.4	14.4	14.4	14.4	14.4	14.4
Accumulated net profit	4.5	12.7	13.0	3.8	1.5	3.3
<b>Equity allocatable to shareholders</b>	<b>46.5</b>	<b>54.7</b>	<b>54.9</b>	<b>51.1</b>	<b>57.8</b>	<b>59.6</b>
Non-controlling interest	3.1	3.6	3.4	2.5	2.9	2.4
<b>Non-current liabilities</b>	<b>57.2</b>	<b>87.6</b>	<b>72.6</b>	<b>127.0</b>	<b>116.8</b>	<b>124.1</b>
as % of total assets	45.0%	53.9%	33.7%	57.7%	49.1%	49.4%
Financial debt	41.5	69.7	56.5	113.1	102.9	110.1
Leasing liabilities	0.0	2.6	2.2	1.8	1.7	1.7
Deferred tax liabilities	15.7	15.3	12.5	11.1	11.1	11.1
<b>Current liabilities</b>	<b>20.3</b>	<b>16.7</b>	<b>84.2</b>	<b>39.6</b>	<b>60.6</b>	<b>65.2</b>
as % of total assets	16.0%	10.3%	39.1%	18.0%	25.4%	26.0%
Financial debt	16.8	13.7	79.1	34.8	55.6	57.3
Trade payables	2.1	0.9	1.9	0.2	0.2	2.8
Leasing liabilities	0.0	0.4	0.4	0.5	0.5	0.5
Other liabilities	1.2	1.7	2.8	4.1	4.2	4.6
<b>Total equity and liabilities</b>	<b>127.1</b>	<b>162.6</b>	<b>215.2</b>	<b>220.1</b>	<b>238.0</b>	<b>251.4</b>

Source: ERWE, FMR

**Cash flow statement**

EURm	2018	2019	2020	2021	2022e	2023e
<b>EBT</b>	<b>7.4</b>	<b>8.2</b>	<b>-2.7</b>	<b>-11.5</b>	<b>-3.2</b>	<b>1.5</b>
Depreciation	0.0	0.2	0.2	0.3	0.3	0.3
Fair Value adjustments	-9.6	-12.6	-6.8	2.0	-4.4	-7.4
At-Equity valued companies	0.0	-1.6	-2.6	0.0	-0.1	-0.1
Net Working Capital	1.4	-0.6	-4.3	-1.4	-0.3	4.4
Interest and taxes	-1.3	-3.1	-6.6	-6.8	0.0	0.0
Other non-cash income/expenses	-0.6	3.3	6.6	7.3	6.3	5.8
<b>CF from operating activities</b>	<b>-1.4</b>	<b>-6.2</b>	<b>-9.5</b>	<b>-10.0</b>	<b>-1.4</b>	<b>4.4</b>
Non-current assets	0.5	0.0	0.0	0.0	0.0	0.0
Investment in investment properties	-13.5	-14.7	-54.3	-6.0	-25.4	-6.6
Investments in PPE	-0.1	-0.6	-0.2	-0.2	0.1	0.0
Investments in equity instruments of other companies	-3.8	-0.1	-1.3	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-17.0</b>	<b>-15.4</b>	<b>-56.2</b>	<b>-6.2</b>	<b>-25.3</b>	<b>-6.6</b>
Capital deposits	18.0	-0.6	0.0	5.3	9.5	0.0
Repayment of finance lease liabilities	0.0	-0.2	-0.5	-0.6	-0.1	0.1
Taking up of financial debt	17.0	51.1	55.1	46.1	10.7	8.9
Repayment of financial debt	-2.3	-28.8	0.0	-34.1	0.0	0.0
<b>CF from financing activities</b>	<b>32.6</b>	<b>21.5</b>	<b>54.6</b>	<b>16.8</b>	<b>20.1</b>	<b>9.0</b>
<b>Change in cash and cash equivalents</b>	<b>14.3</b>	<b>-0.1</b>	<b>-11.1</b>	<b>0.6</b>	<b>-6.7</b>	<b>6.7</b>
Cash at the start of the period	4.9	19.2	19.1	8.0	8.6	1.9
<b>Cash at the end of the period</b>	<b>19.2</b>	<b>19.1</b>	<b>8.0</b>	<b>8.6</b>	<b>1.9</b>	<b>8.6</b>

Source: ERWE, FMR

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- d) Previous analyses: No analysis was published in the 12 months before publication of this analysis that contains a recommendation for a specific investment decision which contradicts this analysis.
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- (ii.) was involved in the management of a syndicate within the past five months that issued financial instruments of the issuer in the context of a public tender;
- (iii.) managed financial instruments of the issuer on a market by means of concluding purchase or sale agreements:



(iv.) has, within the past twelve months, concluded an agreement regarding services in connection with investment banking business or received a service or performance promise from such agreement, with issuers which either themselves or the financial instruments thereof, are the subject of the financial analysis;

(v.) is in possession of a net sales or purchase position which exceeds the threshold of 0.5% of the total issued share capital of the issuer;

(vi.) has concluded an agreement regarding the preparation of investment recommendations with the issuer.

(vii.) has other significant interests with regard to the company being analysed, for example clients with the company being analysed.

Company	Disclosure(s)
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ERWE Immobilien AG	vi
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Recommendation history over last 12 months:

Date	Recommendation	Share price at publication date (EUR)	Price target (EUR)
17.03.2021	BUY	3.78	4.80
12.04.2021	BUY	3.82	4.20
18.05.2021	BUY	3.62	4.20
10.09.2021	BUY	3.36	4.00
17.03.2022	BUY	2.12	3.20
19.04.2022	BUY	1.99	3.20
01.06.2022	BUY	2.14	2.80
08.07.2022	BUY	2.34	2.80
01.09.2022	BUY	2.22	2.70

#### 4. Creation and distribution

a) Responsibility for creation and distribution

FMR Frankfurt Main Research AG

Registered office: Frankfurt am Main; Commercial Register No. HRB 113537, Frankfurt am Main district court; Chairman: Marcus Silbe

b) Issuers

Winfried Becker, Senior Equity Analyst

c) This study may only be used for the internal purposes of the addressee within the EEA or Switzerland.

#### 5. Investment recommendation details

Investment recommendation details - stocks:

**BUY:** In our opinion, the stock will demonstrate an absolute price gain of at least 10 % in a 12-month period.

**HOLD:** In our opinion, the stock will not exceed or fall below an absolute price gain or loss of 10% in a 12-month period.

**Sell:** In our opinion, the stock will demonstrate an absolute price loss of at least 10 % in a 12-month period.

#### 6. Sensitivity of the evaluation parameters

The figures from profit and loss calculations, cash flow statements and balance sheets which form the basis of the company evaluation are date-related estimates and therefore subject to risks. These may change at any time without prior notice. Regardless of the evaluation methods used, there are significant risks that the price goal/trend will not be achieved within the expected time frame. The risks include unforeseeable changes with regard to competition pressure, demand for the products of an issuer and the offer situation with respect to materials required for production as well as non-occurrence of the assumed development. Such deviations may be the result of changes relating to technology and changes relating to the economy, legal situation and exchange rates. No claim is made that this statement of evaluation methods and risk factors is complete.

#### 7. Key sources of information

We have acquired the information upon which this document is based from sources that we consider in principle to be reliable. However, we have not verified all this information. Therefore, we cannot guarantee or ensure the accuracy, completeness or correctness of the information or opinions contained in this document. National and international media and information services (e.g. Factset, Bloomberg etc.), the financial press (e.g. BörsenZeitung, FAZ, Handelsblatt, Wallstreet Journal, etc.), specialist press, published statistics, the internet, as well as publications, details and information of the issuer that is the subject of the analysis.

**8. Summary of the basis for evaluation**

Individual issuers: Current and recognised evaluation methods (e.g. DCF method and Peer Group Analysis) are used for company analysis purposes. The DCF method calculates the value of the issuer based on the sum of the discounted cash flows, i.e. the cash value of the future cash flows of the issuer. The value is therefore determined on the basis of expected future cash flows and the applied discount rate. In Peer Group Analysis, issuers listed on the stock exchange are evaluated by comparing ratios (e.g. price/profit ratio, Enterprise Value/turnover, Enterprise Value/EBITDA, Enterprise Value/EBIT). The comparability of the ratios is primarily determined with reference to the business activity and economic prospects.

**9. Internal organizational and regulatory measures for the prevention or management of conflicts of interest**

Employees of FMR Frankfurt Main Research AG who are involved with the compilation and/or presentation of financial analyses are subject to the internal compliance regulations. The internal compliance regulations correspond to the provisions of the directive for the substantiation of the organizational obligations of investment service companies pursuant to Section 80 Securities Trading Act and EU/ESMA legislation on the basis of the Market Abuse Regulation.

The analysts of FMR Frankfurt Main Research AG do not receive any direct or indirect remuneration from the investment banking business of FMR Frankfurt Main Research AG.

On acceptance of the financial analysis, the recipient accepts that the above restrictions are binding.