

ERWE Immobilien AG

WKN: A1X3WX | ISIN: DE000A1X3WX6 | Bloomberg: ERWE GR

Capital measure strengthens liquidity position

Lockdown effects: In H1/21, government-ordered closures of retail stores continued to burden ERWE's operating business. As a result, some tenants were unable to meet their rental obligations, on the other hand, new leases became more difficult. However, the H1/21 report shows that recovery trends are discernible in both rental arrears (down from EUR 0.43m to EUR ~0.2m at the end of July) and new leases. Thus, the relatively stable vacancy rate (total vacancy rate H1/21: 11.4% vs. H1/20: 10.8%) also reflects the resilience of ERWE's real estate portfolio. Regardless of this, the company succeeded in expanding the result from real estate management to EUR 2.13m H1/21 (H1/20: EUR 1.31m).

Valuation gains lower due to lack of new acquisitions: While a positive valuation gain of EUR 8.12m was recorded in H1/20, the comparable figure dropped to EUR 1.66m in H1/21. Accordingly, EBIT decreased significantly to EUR 0.73m (H1/20: EUR 5.96m). Taking into account the increase in financial expenses and taxes, consolidated net income was clearly negative at EUR -2.9m (H1/20: EUR 5.6m) includes positive tax effect from reversal of deferred tax liabilities of 2.63m euros).

Liquidity / capital measure: At the end of H1/21, cash and cash equivalents stood at EUR 2.23m, too low to cover ongoing investments in own real estate properties and current interest payments. ERWE placed 1.66m shares at a price of EUR 3.30 at the end of July, in order to strengthen the liquidity position. The NRV per share at the end of H1/21 was EUR 4.75 (H1/20: EUR 4.87).

FMR estimates 2021e: We have revised our estimates. For 2021e, we expect earnings from real estate management of EUR 4.5m (old: EUR 4.7m). The corresponding EBIT estimate falls from EUR 6.7m to EUR 2.8m, as we expect lower valuation gains of EUR 4.0m in 2021e compared with the previous year (2020: EUR 6.8m).

Based on the new estimates, our DCF model calculates a fair value of equity of 3.98 per share. We confirm our BUY recommendation, but reduce our price target from 4.20 euros to 4.00 euros per share.

FY End: 31.12.; in Euro	CAGR (18-23e)	2018	2019	2020	2021e	2022e	2023e
NOI	52.8%	1.2	1.4	2.6	4.5	6.9	9.6
EBIT	0.8%	9.5	11.5	3.9	2.8	7.3	9.8
Net profit		4.9	8.7	0.1	-3.2	-0.5	0.7
EPS	-39.4%	0.44	0.50	0.02	-0.16	-0.03	0.04
NAV per share		4.03	4.22	4.12	3.54	3.51	3.55
EPRA NRV		4.66	4.77	4.87	4.33	4.42	4.57
Net debt	40.5%	39.2	67.3	130.1	142.4	179.4	214.2
Net debt/EBITDA		4.13	5.75	31.35	48.19	23.82	21.27
EV	26.1%	86.53	122.63	201.02	203.65	240.59	275.40
EV/EBIT		9.14	10.63	51.46	73.65	32.87	28.00

Source: ERWE Immobilien. FMR

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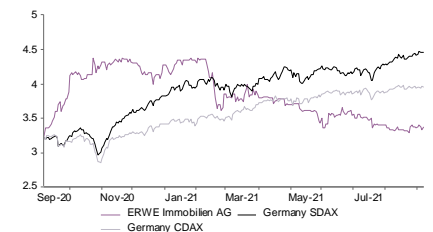
BUY

Before: BUY

Target price **EUR 4.00 (4.20)**
Share price* EUR 3.36 (+19%)

*last XETRA closing price

Change	2021e	2022e	2023e
NOI	-0.2	0.1	1.0
EBIT	-3.9	-2.0	-1.5
EPRA NRV	-	-	-



Source: Factset

Basic share data

Number of shares (millions)	18.2
Free float (in %)	22.40%
Market Cap (in EUR)	61.2
Trading vol. (Ø 30 days)	1.0T
High (Euro, 52 weeks)	4.5
Low (Euro, 52 weeks)	3.3

Shareholder structure

RW Property Investment GmbH	28.2%
Stapelfeld Beteiligungs GmbH	25.8%
Elbstein AG	12.5%
VGHL Management GmbH	8.1%
Erwe Real Estate GmbH	3.0%

Company calendar

Q3/21 report 12.11.2021

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Analysis

Appendix

Discounted cash flow model

in EURm	PHASE 1			2024E	2025E	PHASE 2				2030E	PHASE 3 ∞
	2021E	2022E	2023E			2026E	2027E	2028E	2029E		
Sales	9.3	14.1	19.0	22.7	25.8	28.2	29.6	31.0	32.6	33.7	
Sales growth YoY in %	67.0%	51.0%	35.0%	19.0%	14.0%	9.0%	5.0%	5.0%	5.0%	3.5%	
EBIT	2.8	7.3	9.8	10.5	11.3	12.2	12.7	13.2	13.9	14.4	
EBIT margin in %	29.6%	51.9%	51.7%	46.3%	43.7%	43.3%	42.8%	42.6%	42.6%	42.6%	
Income tax on EBIT	-0.7	-1.8	-2.5	-2.6	-2.8	-3.0	-3.2	-3.3	-3.5	-3.6	
Depreciation and amortisation	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	
Change in net working capital	2.3	1.0	0.7	0.4	0.3	0.2	0.2	0.4	0.3	0.3	
Net capital expenditure	-0.4	-1.8	-2.1	-2.8	-3.0	-3.2	-3.4	-3.7	-3.9	-3.9	
Free cash flow	4.2	4.9	6.3	5.8	6.0	6.4	6.6	7.0	7.2	7.6	
Present values	4.1	4.6	5.6	4.9	4.8	4.9	4.8	4.8	4.7	4.7	153.3
Present value Phase 1	14.3	9%									
Present value Phase 2	33.6	17%									
Present value Phase 3	153.3	76%									
Total present value	201.2	100%									
+ Net cash	-125.1										
- Minority interest (est. market value)	-3.4										
Fair value of equity	72.6										
Number of shares (m)	18.2										
Fair value per share (EUR)	3.98										

Risk free rate	2.0%	Target equity ratio	69.5%
Equity risk premium	6.0%	Tax shield	25.0%
Debt risk premium	3.0%	Beta (fundamental)	0.60
CAGR Sales Phase 2	8.6%	WACC	5.13%
Ø EBIT-margin Phase 2	43.4%	Terminal growth	2.0%

Sensitivity analysis						
Ø EBIT margin (Phase 2)						
		38.4%	40.9%	43.4%	45.9%	48.4%
Ø Revenue	-1.4%	2.65	2.79	2.93	3.07	3.21
growth	3.6%	3.07	3.24	3.41	3.58	3.74
(Phase 2)	8.6%	3.58	3.78	3.98	4.18	4.39
	13.6%	4.19	4.43	4.67	4.91	5.16
	18.6%	4.92	5.21	5.50	5.79	6.08

Source: FMR

Profit & Loss

in EURm	IFRS	2018	2019	2020	2021e	2022e	2023e
Group total value creation		13.5	18.5	16.2	16.8	24.1	29.2
Income from property management		2.8	3.5	5.6	9.3	14.1	19.0
Expenses from real estate management		-1.6	-2.1	-3.0	-4.9	-7.2	-9.4
Result from the real estate management		1.2	1.4	2.6	4.5	6.9	9.6
Margin property management		41.9%	39.4%	47.1%	48.0%	49.3%	50.5%
Other operating income		1.1	0.8	1.2	1.5	1.7	2.0
Personnel costs		-0.5	-1.8	-4.9	-5.0	-5.1	-5.2
Other operating expenses		-1.9	-3.1	-4.5	-4.2	-4.5	-4.8
Result from the valuation of properties held as financial investments		9.6	12.6	6.8	4.0	6.5	7.0
Result from associates measured at equity		0.0	1.6	2.6	2.0	1.8	1.3
EBIT		9.5	11.5	3.9	2.8	7.3	9.8
in % of total value creation		70.3%	62.3%	24.1%	16.4%	30.4%	33.6%
Financial income		0.0	0.0	0.0	0.0	0.0	0.0
Financial expenses		-2.1	-3.3	-6.6	-7.3	-8.1	-8.8
EBT		7.4	8.2	-2.7	-4.6	-0.8	1.0
in % of total value creation		54.8%	44.4%	-16.5%	-27.1%	-3.2%	3.4%
Taxes on income and earnings		-2.5	0.5	2.8	1.4	0.2	-0.3
as % of EBT		-18.3%	2.6%	17.1%	8.1%	1.0%	-1.0%
EAT		4.9	8.7	0.1	-3.2	-0.5	0.7
in % of total value creation		36.5%	47.0%	0.6%	-19.0%	-2.2%	2.4%
Consolidated profit / loss attributable to shareholders of the parent company		4.5	8.3	0.3	-3.0	-0.5	0.6
Consolidated profit / loss attributable to non-controlling shareholders		0.4	0.4	-0.2	-0.2	0.0	0.1
Weighted average of outstanding shares (basic)		10.3	16.6	16.6	18.2	18.2	18.2
Earnings per share (weighted/basic, in EUR)		0.44	0.50	0.02	-0.16	-0.03	0.04
Dividends per share (in EUR)		0.00	0.00	0.00	0.00	0.00	0.00
Payout ratio (in %)		0.00	0.00	0.00	0.00	0.00	0.00

Source: ERWE Immobilien AG, FMR

Balance sheet

in EURm	IFRS	2018	2019	2020	2021e	2022e	2023e
Assets							
Non-current assets		106.8	139.6	204.3	220.1	256.8	293.1
as % of total assets		84.0%	85.8%	95.0%	97.8%	98.5%	98.3%
Goodwill		0.0	0.0	0.0	0.0	0.0	0.0
Property, plant and equipment and intangible assets		0.2	1.5	1.4	1.5	1.5	1.5
Properties held as investments		101.9	131.9	192.7	207.7	242.7	277.7
Investments in associates		4.6	6.2	8.8	10.8	12.6	13.8
Prepayments made for property, plant and equipment and intangible assets		0.0	0.0	0.1	0.0	0.0	0.0
Advance payments property (financial investment)		0.1	0.0	1.3	0.0	0.0	0.0
Current assets		20.3	23.0	10.8	5.0	4.0	5.1
as % of total assets		16.0%	14.2%	5.0%	2.2%	1.5%	1.7%
Trade receivables and other receivables		0.2	0.3	0.6	0.6	0.9	1.0
Receivables from companies with which an equity interest exists		0.0	0.6	1.0	1.0	1.0	1.0
Other assets		0.9	2.9	1.3	1.3	1.3	1.3
Income tax asset		0.0	0.1	0.0	0.0	0.0	0.0
Cash and cash equivalents		19.2	19.1	8.0	2.1	0.9	1.7
Total assets		127.1	162.6	215.2	225.1	260.9	298.2
Shareholders' equity and liabilities							
Shareholders' equity		49.6	58.3	58.4	60.7	60.1	60.8
as % of total equity and liabilities		39.0%	35.8%	27.1%	26.9%	23.0%	20.4%
Share capital		16.6	16.6	16.6	18.2	18.2	18.2
Capital reserves		11.0	11.0	11.0	14.8	14.8	14.8
Revenue reserves		14.4	14.4	14.4	14.4	14.4	14.4
Accumulated net profit		4.5	12.7	13.0	10.0	9.6	10.2
Equity attributable to the shareholders of the parent company		46.5	54.7	54.9	52.0	51.5	52.1
Non-controlling interests		3.1	3.6	3.4	3.2	3.2	3.2
Total non-current liabilities		57.2	87.6	72.6	122.3	156.5	191.2
as % of total equity and liabilities		45.0%	53.9%	33.7%	54.3%	60.0%	64.1%
Financial debts		41.5	69.7	56.5	106.5	141.5	176.5
Provisions		0.0	0.0	1.4	1.1	1.1	1.1
Leasing liabilities		0.0	2.6	2.2	1.8	1.4	1.1
Deferred tax debts		15.7	15.3	12.5	12.5	12.5	12.5
Liabilities to associated companies		0.0	0.0	0.0	0.5	0.0	0.0
Current liabilities and provisions		20.3	16.7	84.2	42.1	44.3	46.2
as % of total equity and liabilities		15.9%	10.3%	39.1%	18.7%	17.0%	15.5%
Income tax liabilities		0.1	0.0	0.0	0.0	0.0	0.0
Financial debts		16.9	13.7	79.1	35.9	37.0	38.0
Trade payables		2.1	0.9	1.9	2.9	4.1	5.0
Leasing liabilities		0.0	0.4	0.4	0.4	0.4	0.3
Other liabilities		1.2	1.7	2.8	2.8	2.8	2.8
Liabilities to associated companies		0.0	0.0	0.0	0.2	0.0	0.0
Total equity and liabilities		127.1	162.6	215.2	225.1	260.9	298.2

Source: ERWE Immobilien AG, FMR

Cash flow statement

in EURm	IFRS	2018	2019	2020	2021e	2022e	2023e
Earnings before interest and taxes		9.5	11.5	3.9	2.8	7.3	9.8
Depreciation and amortisation of property, plant and equipment and intangible assets		0.0	0.2	0.2	0.2	0.2	0.2
Result from the valuation of property held as financial investments		-9.6	-12.6	-6.8	-4.0	-6.5	-7.0
Result from associates measured at equity		0.0	-1.6	-2.6	-2.0	-1.8	-1.3
Increase / decrease of trade receivables		-0.1	-0.1	-0.2	0.0	-0.3	-0.2
Increase / decrease in other assets		-0.2	-0.4	-0.2	0.1	0.0	0.0
Decrease / increase of provisions		0.0	-0.1	1.4	-0.4	0.0	0.0
Decrease / increase of trade payables		1.1	-0.5	0.3	1.0	1.3	0.9
Decrease / increase in other liabilities		-0.7	0.5	1.0	0.7	-0.7	0.0
Operating cash inflow / outflow		-0.1	-3.1	-2.9	-1.8	-0.4	2.6
Interest paid and ancillary financing costs		-1.3	-3.0	-6.6	-7.3	-8.1	-8.8
Received interest		0.0	0.0	0.0	0.0	0.0	0.0
Income tax paid		0.0	-0.1	0.0	1.4	0.2	-0.3
Cash inflow / cash outflow from operating activities		-1.4	-6.2	-9.5	-7.8	-8.2	-6.6
Cash payments for the acquisition of property held as financial investments		-11.9	-6.1	-32.4	-9.2	-21.4	-21.4
Investments in properties held as financial investments		-1.5	-8.7	-21.9	-1.8	-7.1	-6.6
Payments for loans to associated companies		0.0	-0.6	-0.3	0.0	0.0	0.0
Investments in tangible assets and intangible assets		-0.1	-0.1	-0.2	-0.4	-0.2	-0.2
Investments in equity instruments of other companies		-3.8	0.0	-1.3	1.3	0.0	0.0
Disposal (addition) of non-current assets		0.5	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities		-17.0	-15.4	-56.2	-10.0	-28.7	-28.2
Payouts / deposits in conjunction with equity injection		18.0	-0.6	0.0	5.5	0.0	0.0
Repayment of liabilities from finance leases		0.0	-0.2	-0.5	-0.4	-0.4	-0.4
Acquisition of financial debts		17.0	51.1	55.1	6.8	36.1	36.0
Repayment of financial debt		-2.3	-28.8	0.0	0.0	0.0	0.0
Cash flow from financing activities		32.6	21.5	54.6	11.9	35.7	35.7
Net change in cash and cash equivalents		14.3	-0.1	-11.1	-5.9	-1.2	0.9
Cash and cash equivalents at the beginning of the period		4.9	19.2	19.1	8.0	2.1	0.9
Cash and cash equivalents at the end of the fiscal period		19.2	19.1	8.0	2.1	0.9	1.7

Source: ERWE Immobilien AG, FMR

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- b) Time conditions of expected updates: quarterly
- c) Supervisory authority: Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), Marie-Curie-Straße 24-28, 60439 Frankfurt am Main
- 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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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	Price target (EUR)
30.09.2020	BUY	3.78	4.50
09.10.2020	BUY	4.14	4.50
16.11.2020	BUY	4.36	4.80
18.12.2020	BUY	4.16	4.80
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

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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

Enid Omerovic, Senior Analyst

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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.

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