

# CR Capital Real Estate AG

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

H1/15 Results

**RATING**  
**BUY**

**PRICE TARGET**  
**€2.80**

Return Potential 86.7%  
 Risk Rating High

## H1/15 RESULTS IN LINE; PROJECT PIPELINE TAKING SHAPE

Key figures reported for the six month period were highlighted by strong growth. Revenues spiked some 243% Y/Y, driven by the sale of the Hohenzollern project. However, the associated gross margin was insufficient to cover operating costs resulting in a small net loss for the period. Importantly, the revenues gave CR Capital the liquidity to finance the new Hallesches Feld pipeline in Leipzig without any additional debt. We have recalibrated our estimates to account for Hallesches Feld and now see fair value at €2.80 (previously €2.70). We reiterate our Buy rating.

**Hohenzollern handover drives H1/15 results** CR Capital reported sales of €6.5m in H1/15 (H1/14: €1.9m; FBe: €4.6m) equal to a 243% Y/Y rise. Growth was driven by a 300% Y/Y increase in project handovers from the Hohenzollern project. The sale allowed CR Capital to generate enough cash to finance the new Leipzig development, which gives the company excellent visibility for its construction business and high yield potential. A 20% Y/Y rise in rental income also supported overall growth. Gross profit of €0.7m beat the prior level (€0.4m). Operating expenses (OpEx) remained stable and the company booked net income of €-0.3m compared to €0.4m in H1/14, due mainly to the aforementioned low gross margin.

**Setting up construction in Leipzig** CR Capital will make its first foray outside of Berlin when it breaks ground later this year on the newly acquired Hallesches Feld project in Leipzig. The company expects the project to generate some €150m in revenues and plans to realise the handovers over a five year span. Leipzig is regarded by many real estate participants as an up and coming marketplace in Germany, due to population growth that outpaces Berlin and falling vacancy rates. These factors are driving strong demand for new residential units. The project gives CR Capital access to some 60,000m<sup>2</sup> of sellable space and provides much improved visibility beyond 2016. We believe this a significant step forward for the company, given the highly competitive environment in Berlin. (p.t.o)

### FINANCIAL HISTORY & PROJECTIONS

	2012A	2013A	2014A	2015E	2016E	2017E
Revenue (€m)	8.62	13.51	18.34	13.11	33.79	27.80
Y-o-y growth	n.a.	56.7%	35.8%	-28.5%	157.7%	-17.7%
EBIT (€m)	-2.11	-0.63	7.29	2.32	5.07	4.94
EBIT margin	-24.4%	-4.7%	39.7%	17.7%	15.0%	17.8%
Net income (€m)	-2.53	0.06	4.81	2.01	3.72	3.25
EPS (diluted) (€)	-0.17	0.00	0.28	0.12	0.22	0.19
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-10.43	1.71	3.04	-1.52	-4.56	6.13
Net gearing	31.8%	39.9%	3.3%	-1.3%	17.9%	-13.1%
Liquid assets (€m)	1.04	0.42	2.97	4.80	1.74	6.37

### 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 31 Aug 2015

Closing Price	€ 1.50
Shares outstanding	18.78m
Market Capitalisation	€ 28.18m
52-week Range	€ 1.08 / 1.85
Avg. Volume (12 Months)	20,709

Multiples	2014A	2015E	2016E
P/E	5.3	12.8	6.9
EV/Sales	1.5	2.0	0.8
EV/EBIT	3.7	11.5	5.3
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2015

Liquid Assets	€ 4.70m
Current Assets	€ 19.60m
Intangible Assets	€ 9.20m
Total Assets	€ 34.90m
Current Liabilities	€ 11.90m
Shareholders' Equity	€ 18.60m

### SHAREHOLDERS

MPH Group	53.0%
Free Float	47.0%

**Operating cash flows help boost cash position** Slightly improved net income result plus favourable working capital development thanks to the Hohenzollern handovers resulted in operating cash flows of €2.0m for the first six months (H1/14: €0.8m). Cash flow from investment activities for the period totalled €-0.1m with no significant investments occurring in the first six months. Cash flow from financing amounted to €-0.2m. CR Capital ended the period with cash on the balance sheet of €4.7m compared to €1.0m at the end of H1/14 and is well placed to finance continued operations.

**Figure 1: H1/15 results vs forecasts**

in EUR '000	H1/15	H1/15E	Δ	H1/14	Δ
Revenues	6,485	4,595	41.1%	1,893	242.6%
thereof rental income	459	484	-5.2%	381	20.3%
thereof sale of properties	6,026	4,111	46.6%	1,511	298.7%
EBIT	-66	1,222	-	-231	-
Margin	-1.0%	26.6%	-	-12.2%	-
Net income	-317	735	-	-382	-
Margin	-4.9%	16.0%	-	-20.2%	-
EPS	-0.02	0.04	-	-0.17	-

Source: First Berlin Equity Research, company

**Leipzig offers attractive fundamentals** CR Capital will construct and develop 60,000m<sup>2</sup> of residential properties in an attractive location (7km to the airport, 4km from the motorway). The company plans to break ground in the next months, and the first sales are planned for 2016. Leipzig is an attractive location for investors in residential real estate. It is the second largest city in eastern Germany with a population of around 540,000 people. The city attracts an increasing number of students and professionals, is home to several universities, a DHL logistics centre, BMW, Porsche, and Siemens' plants. Real estate prices in Leipzig have been increasing steadily. This is expected to continue as the population expands. According to market forecasts, prices for residential real estate in Leipzig will increase a further 9.6% in 2016 driven by rising demand and the growing purchasing power of city's population.

**Figure 2: Changes to our forecasts**

in EUR '000	2015E			2016E		
	old	new	Δ	old	new	Δ
Revenues	20,755	13,114	-36.8%	22,741	33,792	48.6%
thereof rental income	735	790	7.5%	741	792	6.9%
thereof sale of properties	20,019	12,324	-38.4%	22,000	33,000	50.0%
Gross profit	8,634	3,841	-55.5%	9,278	6,962	-25.0%
Margin	41.6%	29.3%	-	40.8%	20.6%	-
EBIT	6,822	2,317	-66.0%	7,158	5,066	-29.2%
Margin	32.9%	17.7%	-	31.5%	15.0%	-
EBT	6,647	2,216	-66.7%	7,022	4,879	-30.5%
Margin	32.0%	16.9%	-	30.9%	14.4%	-
Net income	6,015	2,005	-66.7%	5,351	3,718	-30.5%
Margin	29.0%	15.3%	-	23.5%	11.0%	-
EPS	0.35	0.12	-66.7%	0.31	0.22	-30.5%

Source: First Berlin Equity Research

**Vastly improved mid-term visibility** The Leipzig project solidifies a pipeline that was beginning to look thin after 2015. The company believes Hallesches Feld will deliver some €150m in revenues over the next five years starting in H2/16 with the first handovers. We have also added the Borgmannstraße project to the construction pipeline and expect it to generate €7.5m in revenues next year in conjunction with some €19.2m from Leipzig. The company continues to hold a small property portfolio, which we estimate generates circa €0.8m in rental income. The cut in our near-term forecast has been more than compensated by longer term projections for Leipzig. The changes to our estimates result in a top-line CAGR of 11% for the period 2015-20. Our recalibrated DCF model generates a new fair value of €2.80 (previously: €2.70) corresponding to a Buy rating.

## DCF VALUATION

All figures in EUR '000	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E
<b>Net sales</b>	<b>18,337</b>	<b>13,114</b>	<b>33,792</b>	<b>27,800</b>	<b>31,810</b>	<b>33,818</b>	<b>35,823</b>	<b>36,755</b>
<b>NOPLAT</b>	<b>5,125</b>	<b>2,129</b>	<b>3,953</b>	<b>3,530</b>	<b>3,951</b>	<b>4,164</b>	<b>4,381</b>	<b>4,465</b>
+ depreciation & amortisation	84	42	38	61	66	73	79	84
Net operating cash flow	5,209	2,171	3,991	3,591	4,017	4,236	4,460	4,550
- total investments (CAPEX and WC)	-2,448	-593	-8,363	2,774	-3,526	-1,842	-1,851	-943
Capital expenditures	-50	-33	-84	-69	-80	-85	-90	-92
Working capital	-2,398	-560	-8,278	2,844	-3,447	-1,757	-1,761	-851
Free cash flows (FCF)	2,761	1,578	-4,372	6,365	490	2,395	2,609	3,606
<b>PV of FCF's</b>	<b>0</b>	<b>1,539</b>	<b>-3,954</b>	<b>5,338</b>	<b>381</b>	<b>1,727</b>	<b>1,744</b>	<b>2,236</b>

All figures in thousands	
PV of FCFs in explicit period	21,791
PV of FCFs in terminal period	26,778
Enterprise value (EV)	48,568
+ Net cash / - net debt	-992
+ Investments / minority interests	19
Shareholder value	47,596

Fair value per share in EUR 2.80

WACC	7.8%
Cost of equity	15.9%
Pre-tax cost of debt	5.0%
Tax rate	30.0%
After-tax cost of debt	3.5%
Share of equity capital	35.0%
Share of debt capital	65.0%

Fair value per share in EUR 2.80

		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	3.8%	6.75	7.43	8.39	9.88	12.48	18.20	40.92
	4.8%	4.98	5.28	5.68	6.21	6.98	8.16	10.22
	5.8%	3.88	4.04	4.23	4.46	4.77	5.19	5.79
	6.8%	3.14	3.23	3.32	3.44	3.59	3.77	4.01
	7.8%	2.61	2.66	2.71	2.77	2.85	2.94	3.05
	8.8%	2.21	2.24	2.27	2.30	2.34	2.39	2.45
	9.8%	1.91	1.92	1.94	1.96	1.98	2.00	2.03
	10.8%	1.66	1.67	1.68	1.69	1.70	1.71	1.73

\* please note our model runs though 2028 and we have shown only the abbreviated version for formatting purposes

## INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
<b>Revenues</b>	<b>8,621</b>	<b>13,506</b>	<b>18,337</b>	<b>13,114</b>	<b>33,792</b>	<b>27,800</b>
<b>Total revenues</b>	<b>14,849</b>	<b>14,912</b>	<b>21,257</b>	<b>16,114</b>	<b>33,792</b>	<b>27,800</b>
Cost of goods sold	14,328	13,782	11,037	9,273	26,830	20,850
<b>Gross profit</b>	<b>521</b>	<b>1,130</b>	<b>10,220</b>	<b>6,841</b>	<b>6,962</b>	<b>6,950</b>
Personnel costs	383	409	539	656	845	834
Depreciation and amortisation	862	353	84	42	38	61
Other operating expenses	1,381	998	2,310	826	1,014	1,112
<b>Operating income (EBIT)</b>	<b>-2,105</b>	<b>-629</b>	<b>7,287</b>	<b>2,317</b>	<b>5,066</b>	<b>4,943</b>
Net financial result	-746	-839	-317	-102	-187	-233
<b>Pre-tax income (EBT)</b>	<b>-2,851</b>	<b>-1,468</b>	<b>6,970</b>	<b>2,216</b>	<b>4,879</b>	<b>4,710</b>
Income taxes	-281	-1,517	2,162	188	1,112	1,413
Minority interests	44	11	1	-22	-49	-47
<b>Net income / loss</b>	<b>-2,526</b>	<b>60</b>	<b>4,810</b>	<b>2,005</b>	<b>3,718</b>	<b>3,250</b>
<b>Diluted EPS (in €)</b>	<b>-0.17</b>	<b>0.00</b>	<b>0.28</b>	<b>0.12</b>	<b>0.22</b>	<b>0.19</b>
<b>EBITDA</b>	<b>-1,243</b>	<b>-276</b>	<b>7,371</b>	<b>2,360</b>	<b>5,103</b>	<b>5,004</b>
<b>Ratios</b>						
Gross margin	-66.2%	-2.0%	39.8%	29.3%	20.6%	25.0%
EBIT margin on revenues	-24.4%	-4.7%	39.7%	17.7%	15.0%	17.8%
EBITDA margin on revenues	-14.4%	-2.0%	40.2%	18.0%	15.1%	18.0%
Net margin on revenues	-29.3%	0.4%	26.2%	15.3%	11.0%	11.7%
Tax rate	9.9%	103.4%	31.0%	8.5%	22.8%	30.0%
<b>Expenses as % of revenues</b>						
Personnel costs	4.4%	3.0%	2.9%	5.0%	2.5%	3.0%
Depreciation and amortisation	10.0%	2.6%	0.5%	0.3%	0.1%	0.2%
Other operating expenses	16.0%	7.4%	12.6%	6.3%	3.0%	4.0%
<b>Y-Y Growth</b>						
Revenues	n.a.	56.7%	35.8%	-28.5%	157.7%	-17.7%
Operating income	n.a.	n.m.	n.m.	-68.2%	118.6%	-2.4%
Net income/ loss	n.a.	n.m.	7854.6%	-58.3%	85.4%	-12.6%

## BALANCE SHEET

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
<b>Assets</b>						
<b>Current assets, total</b>	<b>24,554</b>	<b>18,542</b>	<b>22,886</b>	<b>25,143</b>	<b>31,445</b>	<b>32,865</b>
Cash and cash equivalents	1,041	417	2,965	4,797	1,738	6,371
Short-term investments	4,268	584	1,399	1,399	1,399	1,399
Receivables	468	1,352	823	898	2,315	1,980
Inventories	18,407	16,003	17,432	17,783	25,727	22,849
Other current assets	357	184	264	264	264	264
<b>Non-current assets, total</b>	<b>9,671</b>	<b>11,552</b>	<b>11,645</b>	<b>11,636</b>	<b>11,683</b>	<b>11,691</b>
Property, plant & equipment	63	65	83	74	122	130
Goodwill & other intangibles	2,829	2,717	2,725	2,724	2,724	2,724
Other assets	6,779	8,770	8,837	8,837	8,837	8,837
<b>Total assets</b>	<b>34,225</b>	<b>30,094</b>	<b>34,531</b>	<b>36,779</b>	<b>43,128</b>	<b>44,556</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>17,066</b>	<b>13,969</b>	<b>12,157</b>	<b>12,107</b>	<b>14,190</b>	<b>10,821</b>
Short-term debt	3,515	264	2,415	2,500	3,500	500
Accounts payable	1,074	850	706	572	1,654	1,285
Current provisions	807	1,193	2,265	2,265	2,265	2,265
Other current liabilities	11,670	11,663	6,771	6,771	6,771	6,771
<b>Long-term liabilities, total</b>	<b>6,293</b>	<b>5,459</b>	<b>3,514</b>	<b>4,369</b>	<b>4,869</b>	<b>4,369</b>
Long-term debt	5,254	4,991	2,576	3,431	3,931	3,431
Other liabilities	1,039	468	939	939	939	939
<b>Minority interests</b>	<b>0</b>	<b>19</b>	<b>0</b>	<b>22</b>	<b>71</b>	<b>118</b>
<b>Shareholders' equity</b>	<b>10,866</b>	<b>10,647</b>	<b>18,860</b>	<b>20,280</b>	<b>23,998</b>	<b>29,248</b>
<b>Total consolidated equity and debt</b>	<b>34,225</b>	<b>30,094</b>	<b>34,531</b>	<b>36,779</b>	<b>43,128</b>	<b>44,556</b>
<b>Ratios</b>						
Current ratio (x)	1.44	1.33	1.88	2.08	2.22	3.04
Quick ratio (x)	0.36	0.18	0.45	0.61	0.40	0.93
Net gearing	-31.8%	-39.9%	-3.3%	1.3%	-17.9%	13.1%
Book value per share (€)	0.72	0.71	1.10	1.18	1.40	1.71
Net cash	-3,460	-4,253	-626	265	-4,293	3,840
Return on equity (ROE)	-23.2%	0.6%	25.5%	9.9%	15.5%	11.1%

## CASH FLOW STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
<b>EBIT</b>	<b>-2,105</b>	<b>-629</b>	<b>7,272</b>	<b>2,317</b>	<b>5,066</b>	<b>4,943</b>
Depreciation and amortisation	862	353	84	42	38	61
<b>EBITDA</b>	<b>-1,243</b>	<b>-276</b>	<b>7,355</b>	<b>2,360</b>	<b>5,103</b>	<b>5,004</b>
Changes in working capital	-7,841	3,734	-2,398	-560	-8,278	2,844
Other adjustments	-1,345	-1,733	-1,870	-3,290	-1,299	-1,646
<b>Operating cash flow</b>	<b>-10,429</b>	<b>1,725</b>	<b>3,087</b>	<b>-1,491</b>	<b>-4,474</b>	<b>6,202</b>
CAPEX	0	-19	-50	-33	-84	-69
<b>Free cash flow</b>	<b>-10,429</b>	<b>1,707</b>	<b>3,037</b>	<b>-1,523</b>	<b>-4,559</b>	<b>6,133</b>
<b>Debt financing, net</b>	<b>-4,960</b>	<b>-6,115</b>	<b>-264</b>	<b>3,355</b>	<b>1,500</b>	<b>-1,500</b>
<b>Equity financing, net</b>	<b>0</b>	<b>0</b>	<b>-361</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other changes in cash	15,703	3,786	135	0	0	0
<b>Net cash flows</b>	<b>314</b>	<b>-623</b>	<b>2,548</b>	<b>1,832</b>	<b>-3,059</b>	<b>4,633</b>
Cash, start of the year	727	1,041	417	2,965	4,797	1,738
<b>Cash, end of the year</b>	<b>1,041</b>	<b>418</b>	<b>2,965</b>	<b>4,797</b>	<b>1,738</b>	<b>6,371</b>
<b>EBITDA/share (in €)</b>	<b>-0.08</b>	<b>-0.02</b>	<b>0.43</b>	<b>0.14</b>	<b>0.30</b>	<b>0.29</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.a.	n.m.	78.9%	n.m.	n.m.	n.m.
Free cash flow	n.a.	n.m.	78.0%	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	n.m.	-68.0%	116.3%	-1.9%

### 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	23 July 2014	€0.95	Buy	€2.10
3	10 September 2014	€1.43	Buy	€2.70
4	Today	€1.50	Buy	€2.80

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**STRONG BUY:** Expected return greater than 50% and a high level of confidence in management's financial guidance

**BUY:** Expected return greater than 25%

**ADD:** Expected return between 0% and 25%

**REDUCE:** Expected negative return between 0% and -15%

**SELL:** Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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