

ERWE Immobilien AG

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ERWE with operational growth in Q1/22

Q1/22 - Portfolio properties generate further growth: Primarily as a result of an increase in leased space and rents received for the first time from, for example, the Amedia Group (Postgalerie Speyer), it was possible to increase Gross rental revenue by 19.4% to EUR 2.07m.

EURm	Q1/21	Q1/22 reported	FMR Q1/22e
Gross rental revenue (GRR)	1.73	2.07	1.85
EBIT	0.52	-0.51	0.20
Consolidated net income	-1.29	-2.14	-1.80

Source: ERWE, FMR

The value of the portfolio properties was EUR 218.8m at the end of March. Due in part to the investment in new properties, the LTV rose to 72.4% (end of 2021: 67.8%) and the equity ratio declined to 21.7%.

Growth in portfolio properties: As of the end of March '21, the number of portfolio properties increased to seven compared to five at year-end 2021, with two new properties added in Wuppertal and Bremerhaven with a combined area of around 15,600m². This brought the leasable area to 90,066m², a growth of around 24% compared with year-end 2021.

Financial targets for 2022e confirmed: ERWE continues to expect Gross rental revenue of around EUR 10m and we confirm our estimate of EUR 10.1m. EBIT is still expected to "increase significantly"; we have raised our estimate to EUR 3.4m (previously: EUR 2.2m). We also expect an increase in the valuation result. According to company information, the cash inflow from the capital increase (gross approx. EUR 9.5m) will be used operationally for further growth.

For '22e, we have increased our forecast for the valuation result. At the same time, a higher number of shares has to be taken into account. In sum, the DCF-based price target falls to EUR 2.80. Thus, the share currently has an upside potential of 30%. The EPRA NRV 22e is currently at EUR 3.32 per share and also signals significant upside potential. After the price decline of recent months, the share has now found a bottom. We therefore confirm our "BUY" recommendation.

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	23.8%	9.5	11.5	3.9	-4.8	3.4	7.4
Net income	n.m.	4.9	8.7	0.1	-10.2	-2.5	1.5
EPS, EUR	n.m.	0.44	0.50	0.02	-0.53	-0.08	0.08
EPRA NRV per share, EUR	-11.2%	n.a.	4.77	4.87	4.23	3.32	3.41
Net Debt	5.4%	39.2	64.7	127.6	139.3	147.7	149.4
EV		75.3	101.4	160.3	164.3	193.3	206.7
EV/GRR		27.4	29.3	28.7	20.8	19.1	18.4
EV/EBIT		8.0	8.8	41.0	-34.2	56.6	27.9
Net Debt/EBITDA		4.1	5.5	30.7	-30.7	40.0	19.4

Source: ERWE, FMR

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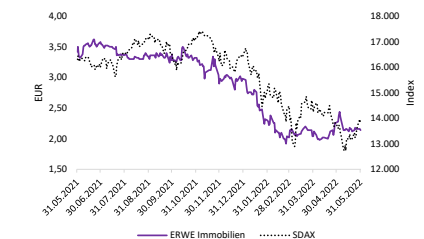
BUY

Before: BUY

Target price **EUR 2.80 (3.20)**
Share price* EUR 2.14 (+30.8%)

*last closing price Börse Frankfurt

Change	2021	2022e	2023e
GRR	0.0	0.0	0.0
EBIT	0.0	1.2	2.5
EPS, EUR	0.00	0.09	0.09



Source: Börse Frankfurt, FMR

Basic share data

Number of shares (millions)	24.56
Free float (in %)	22.40%
Market Cap (in EURm)	52.6
Trading vol. (Ø 30 days)	4,444
High (EUR, 52 weeks)	3.62
Low (EUR, 52 weeks)	1.92

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

H1/22 report

August 2022

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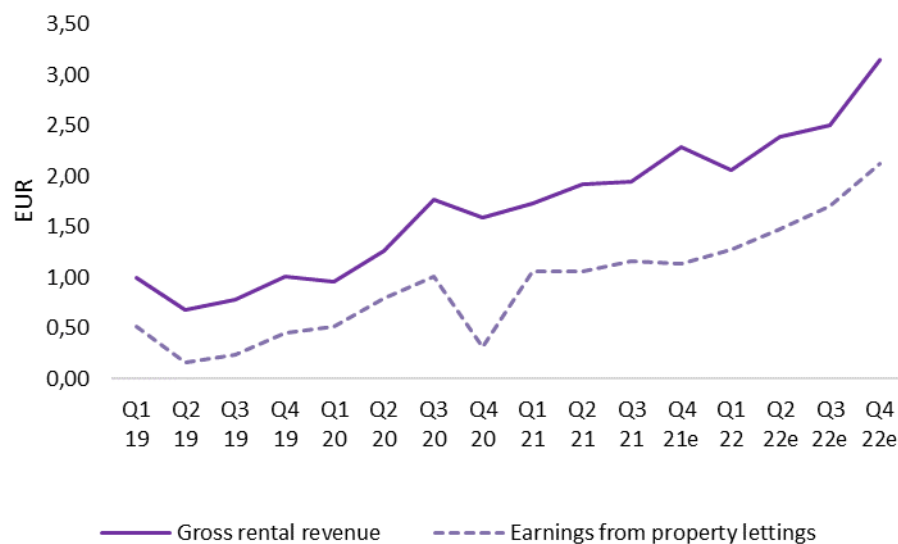
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Highlights Q1/22

In the first quarter, ERWE succeeded in improving income and earnings from real estate management by 19% and 20% respectively compared with the same quarter of the previous year, thanks to an increase in the rental space available for existing properties and to rents collected for the first time.

ERWE: Q1/22 with operational growth



Source: ERWE, FMR

- The leasable area increased to 90,066 m², in particular due to two newly acquired properties in Wuppertal and Bremerhaven. This alone added around 15,600 m² of new space. C&A is the tenant at both properties and we expect stable rental income of between EUR 1.5 to 1.8m per year in the future
- Adjusted EBIT was just negative at EUR -0.11m and compares with EUR 0.51m in the same quarter of the previous year. The adjusted figure includes special effects of EUR 0.39m, mainly relating to personnel costs. In addition, the valuation result was also lower. The "personnel cost effect" also explains why we have estimated the consolidated net result in Q1/22 somewhat too optimistically.
- ERWE continues to work on driving forward new leases at various locations. This applies to Lübeck (new residential space), Speyer (eye clinic as new tenant), Coesfeld (leasing of still vacant apartments), among others. We also believe that ERWE is on track with the development projects in Krefeld, Darmstadt and Friedrichsdorf.

Capital increase in May 2022

As a result of the capital increase in May 2022, ERWE's subscribed capital increases from EUR 18.2m to EUR 24.5m. The number of shares increases from 18,219,214 to 24,562,922. The shares will be issued at a ratio of 3:1 to EUR 1.50. The gross issue proceeds of approximately EUR 9.5m will be used operationally for the further growth of the Group. According to the information in the securities prospectus, it is planned to use EUR 4.7m for the expansion of the development project in Krefeld.

In addition, a further EUR 2.5m is earmarked for revitalization work on existing properties, and just under EUR 1.7m is to be made available for future acquisitions.

As part of the capital increase, it is expected that the share of the existing shareholder Elbstein AG will increase from the previous 12.5% after the increase to a share of at least 28.5%. To secure the capital increase, Elbstein has undertaken a) to exercise all subscription rights attributable to it, b) to exercise the subscription rights assigned to Elbstein AG by the two members of the Management Board (11,858,013 shares) and c) to take over all new shares not subscribed from the capital increase at the subscription price of EUR 1.50. Depending on the number of further shares taken over that were not subscribed, Elbstein's shareholding may also exceed the 30% threshold. This would then trigger a mandatory offer under the German Securities Acquisition and Takeover Act (WpÜG).

Overall, we assess the capital measure positively, as it supports the further operational growth of the Group. In addition, ERWE's equity ratio will be strengthened and will improve by more than 2 percentage points to 22.8% based on our current model assumptions. Correspondingly, the LTV is also expected to improve again to just below 70%.

Profit & Loss						
EURm	2018	2019	2020	2021	2022e	2023e
Earnings from property lettings	1.2	1.4	2.6	4.4	6.6	7.7
yoy change		18.4%	92.7%	68.0%	48.8%	17.1%
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	-3.5	-3.6
yoy change		31.4%	40.8%	17.3%	1.5%	1.0%
Cost of operations	-2.4	-4.9	-9.4	-8.4	-9.0	-9.1
yoy change		102.5%	92.2%	-9.9%	6.7%	1.0%
Fair value adjustments of investment properties	9.6	12.6	6.8	-2.0	4.4	7.3
yoy change		30.9%	-46.0%	-129.6%	-320.0%	65.0%
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%
EBIT	9.5	11.5	3.9	-4.8	3.4	7.4
yoy change		21.9%	-66.2%	-222.9%	-171.1%	117.2%
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%	184.7%	77.8%
EBT	7.4	8.2	-2.7	-11.5	-2.9	1.6
yoy change		11.4%	n.a.	n.a.	n.a.	-156.9%
Taxes on income	-2.5	0.5	2.8	1.4	0.3	-0.2
as % of EBT	33.4%	-5.9%	103.8%	12.0%	12.0%	10.0%
Consolidated net income	4.9	8.7	0.1	-10.2	-2.5	1.5
yoy change		77.2%	-98.8%	n.a.	n.a.	-158.2%
Minorities	-0.4	-0.4	0.2	1.0	0.5	0.5
Net income after minorities	4.5	8.3	0.3	-9.2	-2.0	2.0
Number of shares	10.3	16.6	16.6	17.2	24.6	24.6
EPS, EUR	0.44	0.50	0.02	-0.53	-0.08	0.08

Source: ERWE, FMR

Balance sheet						
EURm	2018	2019	2020	2021	2022e	2023e
Assets						
Non-current assets	106.8	139.6	204.3	208.4	224.0	230.4
as % of total assets	84.0%	85.8%	95.0%	94.7%	84.4%	81.7%
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	211.1	217.5
Interest in at-equity companies	4.6	6.2	8.8	1.4	1.5	1.5
Current assets	20.3	23.0	10.8	11.7	41.5	51.4
as % of total assets	16.0%	14.2%	5.0%	5.3%	15.6%	18.3%
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	1.6	1.5
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	38.3	48.3
Total Assets	127.1	162.6	215.2	220.1	265.5	281.8
Shareholder's equity and liabilities						
Total equity	49.6	58.3	58.4	53.5	60.5	62.0
as % of total assets	39.0%	35.8%	27.1%	24.3%	22.8%	22.0%
Share capital	16.6	16.6	16.6	18.2	24.6	24.6
Capital reserve	11.0	11.0	11.0	14.7	17.9	17.9
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	1.8	3.7
Equity allocatable to shareholders	46.5	54.7	54.9	51.1	58.5	60.5
Non-controlling interest	3.1	3.6	3.4	2.5	2.0	1.5
Non-current liabilities	57.2	87.6	72.6	127.0	166.7	177.5
as % of total assets	45.0%	53.9%	33.7%	57.7%	62.8%	63.0%
Financial debt	41.5	69.7	56.5	113.1	152.7	163.3
Leasing liabilities	0.0	2.6	2.2	1.8	1.9	2.0
Deferred tax liabilities	15.7	15.3	12.5	11.1	11.1	11.1
Current liabilities	20.3	16.7	84.2	39.6	38.3	42.3
as % of total assets	16.0%	10.3%	39.1%	18.0%	14.4%	15.0%
Financial debt	16.8	13.7	79.1	34.8	33.4	34.4
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
Total equity and liabilities	127.1	162.6	215.2	220.1	265.5	281.8

Source: ERWE, FMR

Cash flow statement

EURm	2018	2019	2020	2021	2022e	2023e
EBT	7.4	8.2	-2.7	-11.5	-2.9	1.6
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	-7.3
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	-1.7	4.2
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
CF from operating activities	-1.4	-6.2	-9.5	-10.0	-2.5	4.6
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	-15.6	-6.3
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
CF from investing activities	-17.0	-15.4	-56.2	-6.2	-15.5	-6.3
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	38.2	11.7
Repayment of financial debt	-2.3	-28.8	0.0	-34.1	0.0	0.0
CF from financing activities	32.6	21.5	54.6	16.8	47.8	11.8
Change in cash and cash equivalents	14.3	-0.1	-11.1	0.6	29.8	10.0
Cash at the start of the period	4.9	19.2	19.1	8.0	8.6	38.3
Cash at the end of the period	19.2	19.1	8.0	8.6	38.3	48.3

Source: ERWE, 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 date (EUR)	Price target (EUR)
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
17.03.2022	BUY	2.12	3.20
19.04.2022	BUY	1.99	3.20
01.06.2022	BUY	2.14	2.80

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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

Winfried Becker, Senior Equity Analyst

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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.

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