

FCR Immobilien

Progressing with portfolio expansion agenda

FCR Immobilien consistently implements its growth strategy of increasing its market penetration in the German retail property market coupled with selective, rental-oriented expansion in other real estate segments. As a result, its portfolio at end-September 2019 reached 71 properties with a leasable floorspace of 324k sqm (vs 58 properties and 248k sqm at end 2018). Consequently, the annualised rental revenue of FCR's portfolio reached €17.1m (vs €14.8m at end-2018). Further acquisitions have been completed in recent months. FCR's shares are trading at a price to last reported NAV ratio of 0.98x vs the peer average of 1.12x.

Earnings illustrate portfolio growth

FCR's FFO2 (net profit before D&A) was €6.7m in H119 compared with €1.9m in H118, driven by the higher rental income (€9.6m at the top-line level) from the enlarged property portfolio and disposal gains of €10.3m (vs €2.2m in H118) realised on three transactions. The company's net debt to total assets ratio was slightly down to 79% from 84% at end-2018 on the back of the recently completed share issue. We estimate FCR's LTV at property level at 65% at end-June 2019 (compared with 67% at end-2018 and the targeted range of 70–80%). FCR's 9M19 FFO2 was €7.5m (vs €2.9m in 9M18).

Continued high exposure to retail properties

FCR remains predominantly focused on retail properties, which at end-August 2019 represented 83% of the rental income generated by its portfolio. Importantly, the majority of FCR's tenants are from non-cyclical sectors that should also be immune to the e-commerce threat. The company is also pursuing selective rental-oriented expansion outside of the retail segment, as illustrated by the acquisition of a residential project in Berlin-Köpenick, a hotel in Westerburg, as well as a distribution centre in Zeithain. We estimate that initial yields for recent transactions were around 8–10% compared with FCR's target of more than 10%.

Valuation: Trading at a discount on P/NAV ratio

Based on the company's EPRA NAV at end-June 2019 and current shares outstanding (post the recent secondary public offering), translating into an NAV of c €10.16 per share, FCR trades at a P/NAV ratio of 0.98x. This represents a 12% discount to its peer group.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	16.4	1.3	0.23*	0.00	43.5	N/A
12/18	37.2	3.0	0.34*	0.35*	29.4	3.5
12/19e	61.9	13.2	0.75	N/A	13.3	N/A
12/20e	92.3	10.6	0.59	N/A	16.9	N/A

Source: Company accounts, Refinitiv consensus at 30 October 2019. Note: *Not adjusted for the recent issue of bonus shares. Please note that consensus is based on one broker only.

Real estate

Price €10.00
Market cap €91m

Share price graph



Share details

Code	FC9
Shares in issue	9.1m
Net debt (€m) at end-June 2019	159.3

Business description

FCR Immobilien is a German real estate investor primarily focused on small and mid-sized properties in tier two domestic locations. It looks for special situations translating into bargain purchases. Subsequent measures are aimed at improving rental income generation.

Bull

- Expertise in sourcing attractively priced properties.
- Considerable portfolio expansion leading to rental income growth.
- Exposure to mostly non-cyclical tenants with limited threat from online shopping.

Bear

- High leverage level vs peers.
- Relatively high tenant concentration.
- Key personnel risk.

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