MIRABAUD Securities

28th May 2019

VIB VERMOEGEN AG (VIH GY €25.50) Landmark projects drive significant growth phase as we raise our target from €26 to €32.60

On the occasion of the announcement of an albeit modest development project by **VIB VERMOEGEN AG**, we wish to highlight why we believe the stock remains attractive **and can continue to deliver long term growth**. A key metric remains funds from operations (FFO), the most reliable measure of cash flow generation which in turn funds reinvestment in the business, dividend payment, and debt amortisation.

VIB currently stands on a yield on FFO of just over 7%, which is based on our forecast of €49m for 2019 (€1.78 per share), as well as our view that the company's own guidance of €48m is on the prudent side and there's a consistent history of VIB surpassing the numbers it gives out at the beginning of each year. That's not just a finger in the air guess, as we also factor in additional tenancy occupation of development projects which the company has currently only half pre-let as well as some additional refinancing benefits. **7% compares rather favourably with other peers, notably WAREHOUSES DE PAUW (WDP BB) running at 4.6% and SEGRO (SGRO LN) which is rated at 3.5% yield on FFO.**

To make a simple and admittedly spurious suggestion; if VIB were to put every cent of FFO into debt repayment, the company would be debt free in less than 11 years, the asset value would translate to €42 per share, and if it were all paid out as dividend thereafter, it would be more than €2.50 per share. Our point being that VIB has such a good quality asset base, a solid tenancy list, backed by a prudent balance sheet and run with Bavarian guile, that is provides a **level of visibility almost impossible to match by anyone else in the sector**, whether commercial or residential.

But of course, that's not going to happen because happily VIB's management team has a demonstrable record of boosting growth and creating value, especially through the reinvestment of FFO in development projects as well as acquiring standing buildings. The company's first marque development at Interpark near Ingolstadt is a fine example. Constructed back in 2014 for around €34m for different tenants, it wasn't long before **Audi muscled its way in to occupy the entire 52,000m² logistics site** and it generates more than €3.25m rental income a year. **If Segro wanted to buy it tomorrow** (and they might, as they're next door neighbours with a site let to BMW) they would have to **pay somewhere in the region of €50m**, almost certainly more once the tenacy agreement is extended. So **VIB's ROE is arguably somewhere in the region of 200%.** But as we know, it's on the books for rather less, which helps to explain our argument that the asset base is undervalued and does not reflect current market prices.

We could almost end with our conclusion here, but it's useful bring in some recent milestones and what that signals for the future direction of the company. For those who simply want to know what we think it's worth, skip to the last paragraph, but here's why we think there's a lot more to come.

The company is well financed for growth (somewhat frustrating for VIB brokers, less so for VIB raters). In late 2016 the company placed a **€70m bond at a rate of 1.17%** and it's recently followed that up with the placement of **€42.5m** "Schuldschein" or German promissory note **at a rate of just**

over 1%. VIB clearly benefits from the environment of "rates lower for longer", but in a testimony to the company's solid reputation, demand far outstripped the initial target of €30m. The company also has **around €31m cash on the balance sheet**, which all combined positions the company to fund a potentially burgeoning pipeline and go for the next phase of growth.

Part of that **growth includes** the biggest development project to date. Once again this is located in Interpark / Ingolstadt and construction is well under way following site preparation last year for the **115,000m² logistics facility** which incorporates a section over two storeys. That's pretty unique for the region and represents a flagship project and all the more a measure of VIB's execution ability given the tenants are Audi and this time also Volkswagen. That's due for completion in 2020, and looking beyond that timeframe VIB expects to do at least the same again. We anticipate an **additional 120,000m²,** which is likely to include the start of yet another landmark development of particular interest given its **proximity to Munich airport**. Lettable area will be more than **80,000m² with mixed use applications for office as well as logistics.**

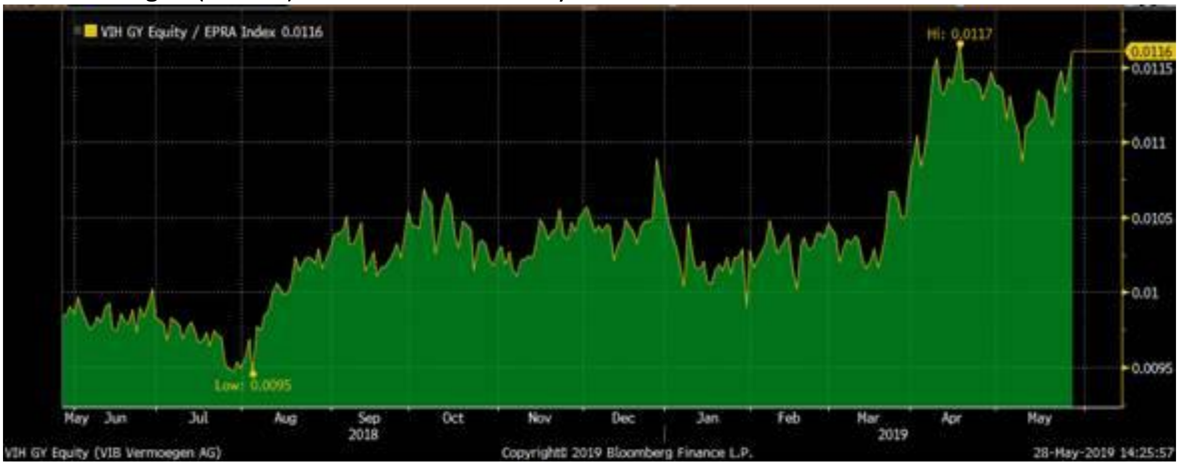
This is undoubtedly a challenging period for the German economy, so we believe the strength of VIB's tenant relationships helps to maintain high occupancy levels, not just now, but well into the future. In February the Dehner Group, one of Germany's largest garden centre operators, extended tenancy agreements across 15 sites out to 2032. It's worth noting that this also allows VIB to **negotiate new financing options with roughly €70m worth of rate fixes maturing over the next 3 years**, including €39m in 2020 at a rate of 5.29%. Given the latest rates were fixed at just over 1% for 7 years, **VIB should save almost €2m in interest costs which is worth about 7 cents per share for FFO**. It's also worth noting that refinancing resets the debt amortisation clock and frees up additional cash. **LTV remains right at the low end of the company's target range of 50% to 55%,** so even with a number of new investment commitments, we don't expect overall LTV to rise much above 53%.

The stock has started to move higher since ending 2018 more or less where it started, but whilst auto sector headlines are peppered with news that will lead to crunched margins, VIB went on to increase FFO and dividend for the 10th year in a row. We're not blind to the machinations affecting auto producers and component suppliers alike, whether it be dieselgate, Trump tariffs, withering Chinese demand, more capex required for new technology and emissions testing, but supply has been so limited that VIB is able to maintain occupancy levels at almost 100%. Indeed, as the auto OEMs introduce new technology that drives demand for higher spec warehousing, whether that's used for R&D facilities such as Audi and Continental, or more stringent provisions for battery storage.

At first it may seem the 23rd May announcement of a €7.5m logistic investment is somewhat of damp squib in the overall outlook. Whilst there'll be more such deals to come, and they do indeed contribute to profitable growth, it's the landmark projects that will get the company noticed – by prospective tenants as well as equity investors. **By the time we get to the end of 2020 and into the start of 2021 VIB will be on course to generate a run rate FFO surpassing €54m. We believe applying a 6% yield on FFO is perfectly reasonable for such an assured operator in the sector, which drives our expected valuation of €900m, or €32.60 per share.**

VIB Vermoegen AG								
FFO, NAV, and dividend per share								
	2015	2016	2017	2018	2019e	2020e	2021e	2022e
FFO	1.18	1.3	1.49	1.64	1.78	1.89	2.00	2.05
NAV	15.69	17.05	18.58	20.30	21.80	23.50	25.00	26.50
Dividend	0.51	0.55	0.60	0.65	0.70	0.76	0.83	0.90

VIB Vermoegen (VIH GY) vs EPRA Index over 1 year



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Mirabaud: VIB landmark projects drive growth, PT raised from €26 to €32.60