

## BlackWall Ltd

### WOTSO delivers strong growth in H118

BlackWall Ltd (BWF) has two divisions, property funds management, which it undertakes for the related BlackWall Property Trust (BWR) and a number of unlisted wholesale and retail syndicates, and WOTSO WorkSpace, a flexible office and workspace business with locations across New South Wales, Queensland, ACT, South Australia, Tasmania and Singapore.

#### Business Model and strategy

The property funds management business is a specialist boutique real estate manager involved in ownership, funding and development of income producing property. BWF manages properties owned by unlisted syndicates and by BlackWall Property Trust (BWR) of which it holds 16%. Performance fees are generated after benchmark returns set for the investment are met. In FY17, 47.5% or \$4.55m of total fee income for BWF was generated from performance fees, which was above the average of \$2m a year in performance fees that BWF has generated each year since listing. The group re-invests performance fees (roughly \$7 million from Pymont in 2017) or takes them in cash (\$3.2 million from Storage Fund in FY14). Mark to market adjustments (non-cash) were \$1.6m (15% of total property funds management revenue). The flexible office and workspace business (WOTSO) generates \$700-\$900 per Gross Floor Area (GFA) and earns margins of between 25% and 30% at maturity (approximately Year 3). WOTSO is meeting the need for flexible office space offering space by the desk per day, lower risk and simplified transactions.

#### Interim result

BWF reported H118 NPAT of \$6.85m, up six-fold year on year due to the restructure of the trust that controls 55 Pymont Bridge Road, a property it manages. This resulted in a performance fee of \$7.9m. Annualised turnover in the WOTSO business of \$8.2m rose 18% from June 2017 and since then it has added three new sites which are not yet revenue producing. WOTSO's H118 pre-tax profit increased by 100% to \$0.25m on the back of a 39% lift in revenue to \$3.9m.

**Valuation: NAV is \$0.49 a share, trading at a discount to market**  
BWF's last share issue price was \$0.60 (Sept 2016) a 66% discount to the current share price of \$1.03. BWF trades at a trailing PE of 13.6x a discount to the market PE of 17.8x trailing and 15.4x forecast. At 31 December the company's net asset backing was \$0.49 per share.

#### Earnings history (A\$m unless otherwise stated)

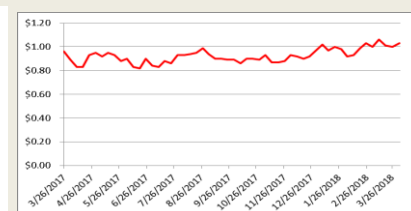
YE June	Revenue	EBITDA	EBIT	NPAT Adj	EPS (cents)	DPS (cents)	PE x	Yield	P/CF x
2014	10.9	6.2	6.0	4.4	8.7	2.5	11.6	2.5%	13.1
2015	9.0	4.2	4.0	2.8	5.5	3.0	18.3	3.0%	64.8
2016	10.8	4.0	3.7	3.0	5.9	3.5	17.0	3.5%	44.1
2017	17.4	6.7	6.1	4.6	7.4	3.6	13.6	3.6%	39.9

Source: Company data

#### Share details

Code	BWF
Share Price	\$1.01
Market Capitalisation	\$60M
Number of shares	59.7M
Enterprise Value	\$55M
Sector	REIT
Free Float	38.4%
Net cash 31 Dec 2017 (inc short term investments)	\$4.9M

#### Share price performance (12-months)



#### RaaS RAP 5-point score\* = 4/5

Revenue increasing (1) EPS increasing (1), Return on Capital Employed [ROCE] (1); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(0)

#### Upside Case

- Increasing corporate demand for flexible workspace
- Early mover advantage in WOTSO business
- Track record in property out-performance (earning fees set above the performance threshold)

#### Downside Case

- Performance fees and mark to market means cash earnings are likely to be below reported earnings
- WOTSO dependent on suitable property acquisition opportunities
- One-off nature of performance fees

#### Catalysts

- Continued growth in the WOTSO Workspace business

#### Comparative companies (Australia & NZ)

EDC, VP7

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