

Recommendation:

**BUY** (BUY)

Risk:

**MEDIUM** (MEDIUM)

Price Target:

**EUR 7.00** (7.00)

18 November 2011

## Solid 9M, increased earnings guidance

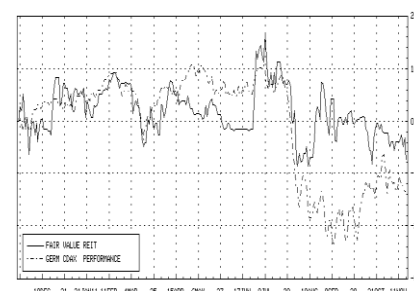
- On Tuesday, Fair Value released 9M results which were in line with our expectations. Additionally, the company increased its FY 2011E EPRA result to EUR 5.6m from EUR 5.0m.
- Net rental result in 3Q was down to EUR 1.9m (PY EUR 2.6m, -26.6%). This was mainly due to higher real estate operating expenses which included construction work related to reletting measures. 9M rental result decreased to EUR 6.3m (PY EUR 7.0m, -11.4%).
- The financial result in 3Q of EUR 0.33m was slightly higher than in last year's period (EUR 0.26m). In contrast, on a 9M basis the financial result improved to a profit of EUR 1.1m (PY EUR -0.2m). This was driven by a higher profit of EUR 4.53m (PY EUR 3.41m) stemming from the result from equity accounted investments which was due to less interest expenses and an increase in the valuation of derivatives.
- Net income attributable to shareholders of EUR 1.3m in 3Q 2011 was lower than in 3Q 2010 (EUR 1.8m, -25.3%) due to the higher real estate operating expenses. However, 9M net income went up to EUR 4.5m (PY EUR 4.1m, +10.7%) supported by the higher profit stemming from the result from equity accounted investments.
- The occupancy rate increased to 94.4% from 93.1% in 1H and is expected by the company to go up to 95% at the end of FY 2011E.
- Further improvements should be seen over the next two years, also coming from lower financing costs which could mean EUR 0.7m p.a. less interest expenses.
- The increase of the EPRA earnings guidance is a positive sign. We keep our IFRS net earnings estimates unchanged although we could be slightly surprised on the upside. Fair Value is successfully working on its portfolio and financing structure. The discount of 50% to its balance sheet NAV of EUR 8.32 is overdone. We reiterate our BUY recommendation with a price target of EUR 7.00.

### Key data

FY 12/31, EUR m	2008	2009	2010	2011E	2012E	2013E
Sales	12.4	10.5	12.1	10.4	10.6	10.7
EBIT	-1.8	-0.7	2.9	5.9	6.6	7.1
Net result	-13.3	-2.9	2.2	5.8	6.9	7.6
EPS	-1.41	-0.31	0.24	0.62	0.74	0.82
DPS	0.00	0.00	0.10	0.20	0.25	0.25
EBIT margin	-14.5%	-8.7%	30.4%	71.2%	78.8%	83.4%
ROE	-15.5%	-3.9%	3.0%	7.6%	8.6%	9.0%
ROA	-0.8%	-0.4%	1.4%	3.0%	3.3%	3.5%
LTV	52.6%	56.0%	55.1%	53.4%	52.5%	51.7%
Price / NAV	0.49	0.58	0.57	0.50	0.48	0.46
EV/EBIT	-67.2	-196.1	45.1	21.3	18.8	17.6
P/E	-2.8	-14.6	18.9	6.8	5.7	5.2

Source: Fair Value REIT-AG, CBS Research AG

Share price (dark) vs. CDAX



Source: CBS Research AG, Bloomberg, Fair Value REIT-AG

Change	2011E		2012E		2013E	
	new	old	new	old	new	old
Sales	-	10.4	-	10.6	-	10.7
EBIT	-	5.9	-	6.6	-	7.1
EPS	-	0.62	-	0.74	-	0.82

www.fair-value-reit.de

WKN: A0MW97

Reuters: FVIG.DE

Sector: Real Estate

ISIN: DE000A0MW975

Bloomberg: FVI GY

### Short company profile:

Fair Value REIT-AG is a Real Estate Investment Trust (REIT) that focuses on the acquisition, rental, property management and sale of office and retail properties throughout Germany. Fair Value invests directly and indirectly via participations in real estate.

### Share data:

Share price (EUR, latest closing price):	<b>4.24</b>
Shares outstanding (m):	9.3
Market capitalisation (EUR m):	39.5
Enterprise value (EUR m):	124.7
Ø daily trading volume (3 m., no. of shares):	4,178

### Performance data:

High 52 weeks (EUR):	5.15
Low 52 weeks (EUR):	3.86
Absolute performance (12 months):	-9.4%
Relative performance vs. CDAX:	
1 month	1.5%
3 months	-2.4%
6 months	8.4%
12 months	4.6%

### Shareholders:

H.F.S.	30.5%
IC	18.1%
IFB	5.4%
BBV	3.8%
Free float	42.3%

### Financial calendar:

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## Fair Value REIT AG

## Profit and loss account

	IFRS	EURm	3Q 2010	3Q 2011	change	% change	9M 2010	9M 2011	change	% change
<b>Rental income</b>			<b>2.9</b>	<b>2.7</b>	<b>-0.2</b>	<b>-7.5%</b>	<b>8.9</b>	<b>7.8</b>	<b>-1.1</b>	<b>-12.2%</b>
Income and expenses related to rental income			-0.3	-0.8	-0.5	-140.5%	-1.9	-1.6	0.3	15.0%
<b>Net rental result</b>			<b>2.6</b>	<b>1.9</b>	<b>-0.7</b>	<b>-26.6%</b>	<b>7.1</b>	<b>6.3</b>	<b>-0.8</b>	<b>-11.4%</b>
Result from sale of investment properties			0.0	0.0	0.0	n.m.	-0.1	-0.1	0.0	n.m.
<b>Total revenues</b>			<b>2.5</b>	<b>1.9</b>	<b>-0.6</b>	<b>-25.5%</b>	<b>7.0</b>	<b>6.2</b>	<b>-0.8</b>	<b>-11.3%</b>
SG&A			-0.5	-0.5	0.0	-8.1%	-1.6	-1.7	-0.1	-8.0%
Total other operating income and expenses			-0.1	0.0	0.1	n.m.	-0.1	0.1	0.2	n.m.
<b>EBITDA</b>			<b>2.0</b>	<b>1.4</b>	<b>-0.6</b>	<b>-29.1%</b>	<b>5.3</b>	<b>4.6</b>	<b>-0.7</b>	<b>-13.9%</b>
in % of total revenues			77.6%	73.8%			76.3%	74.0%		
Valuation result			0.0	-0.1	-0.1	n.m.	0.0	-0.4	-0.4	n.m.
in % of total revenues			0.0%	-6.2%			0.0%	-6.0%		
<b>EBIT</b>			<b>2.0</b>	<b>1.3</b>	<b>-0.7</b>	<b>-35.1%</b>	<b>5.3</b>	<b>4.2</b>	<b>-1.1</b>	<b>-20.9%</b>
in % of total revenues			77.6%	67.6%			76.3%	68.0%		
Financial result			0.3	0.3	0.1	29.8%	-0.2	1.1	1.3	n.m.
<b>Net income including minorities</b>			<b>2.2</b>	<b>1.6</b>	<b>-0.6</b>	<b>-27.7%</b>	<b>5.1</b>	<b>5.3</b>	<b>0.2</b>	<b>3.9%</b>
Minority interests			-0.4	-0.3	0.2	37.2%	-1.1	-0.8	0.2	22.5%
<b>Net income attributable to shareholders</b>			<b>1.8</b>	<b>1.3</b>	<b>-0.4</b>	<b>-25.3%</b>	<b>4.1</b>	<b>4.5</b>	<b>0.4</b>	<b>10.7%</b>
in % of total revenues			70.3%	70.5%			58.5%	73.0%		
Shares outstanding (in millions)			9.3	9.3	0.0	0.0%	9.3	9.3	0.0	0.0%
<b>Earnings per share (EUR)</b>			<b>0.19</b>	<b>0.14</b>	<b>-0.05</b>	<b>-25.3%</b>	<b>0.44</b>	<b>0.48</b>	<b>0.05</b>	<b>10.7%</b>

Source: CBS Research AG, Fair Value REIT AG

## Appendix

### Fair Value REIT AG

#### Profit and loss account

	IFRS	EURm	2008	2009	2010	2011E	2012E	2013E
<b>Rental income</b>			<b>12.4</b>	<b>10.5</b>	<b>12.1</b>	<b>10.4</b>	<b>10.6</b>	<b>10.7</b>
YoY growth			186.5%	-15.6%	15.5%	-13.8%	1.9%	0.5%
Income and expenses related to rental income			-1.6	-1.9	-2.5	-2.2	-2.2	-2.2
<b>Net rental result</b>			<b>10.8</b>	<b>8.5</b>	<b>9.5</b>	<b>8.2</b>	<b>8.4</b>	<b>8.5</b>
Result from sale of investment properties			1.3	-0.2	-0.1	0.0	0.0	0.0
<b>Total revenues</b>			<b>12.1</b>	<b>8.3</b>	<b>9.4</b>	<b>8.2</b>	<b>8.4</b>	<b>8.5</b>
SG&A			-3.8	-2.6	-2.3	-2.3	-2.0	-2.0
Total other operating income and expenses			-0.4	-0.1	-0.1	-0.1	-0.1	-0.1
<b>EBITDA</b>			<b>8.0</b>	<b>5.6</b>	<b>7.1</b>	<b>5.9</b>	<b>6.4</b>	<b>6.4</b>
in % of total revenues			65.8%	67.7%	75.4%	71.2%	75.8%	75.8%
Valuation result			-9.7	-6.4	-4.2	0.0	0.3	0.6
in % of total revenues			-80.3%	-76.4%	-45.0%	0.0%	3.1%	7.7%
<b>EBIT</b>			<b>-1.8</b>	<b>-0.7</b>	<b>2.9</b>	<b>5.9</b>	<b>6.6</b>	<b>7.1</b>
in % of total revenues			-14.5%	-8.7%	30.4%	71.2%	78.8%	83.4%
Financial result			-12.0	-3.1	-0.9	1.0	0.8	1.1
<b>Net income including minorities</b>			<b>-13.7</b>	<b>-3.9</b>	<b>2.0</b>	<b>6.9</b>	<b>7.5</b>	<b>8.2</b>
Minority interests			0.4	0.9	0.3	-1.1	-0.5	-0.6
<b>Net income attributable to shareholders</b>			<b>-13.3</b>	<b>-2.9</b>	<b>2.2</b>	<b>5.8</b>	<b>6.9</b>	<b>7.6</b>
in % of total revenues			-109.7%	-34.9%	23.7%	70.6%	82.2%	89.7%
Shares outstanding (in millions)			9.4	9.3	9.3	9.3	9.3	9.3
<b>Earnings per share (EUR)</b>			<b>-1.41</b>	<b>-0.31</b>	<b>0.24</b>	<b>0.62</b>	<b>0.74</b>	<b>0.82</b>
<b>Dividend per share (EUR)</b>			<b>0.00</b>	<b>0.00</b>	<b>0.10</b>	<b>0.20</b>	<b>0.25</b>	<b>0.25</b>

Source: CBS Research AG, Fair Value REIT AG

## Fair Value REIT AG

## Balance Sheet

	IFRS	EURm	2008	2009	2010	2011E	2012E	2013E
<b>Assets</b>								
<b>Non-current assets</b>			<b>181.5</b>	<b>185.4</b>	<b>177.5</b>	<b>181.7</b>	<b>185.4</b>	<b>189.9</b>
as % of total assets			91.6%	91.0%	90.6%	92.3%	91.9%	91.6%
Intangible assets			0.0	0.0	0.0	0.0	0.0	0.0
PP&E			0.0	0.0	0.0	0.0	0.0	0.0
Investment properties			130.7	137.6	128.7	129.2	129.7	130.7
Equity accounted investments			48.4	47.4	48.6	52.2	55.5	58.9
Other receivables and assets			2.3	0.3	0.3	0.3	0.3	0.3
<b>Current assets</b>			<b>16.7</b>	<b>18.4</b>	<b>18.5</b>	<b>15.3</b>	<b>16.4</b>	<b>17.4</b>
as % of total assets			8.4%	9.0%	9.4%	7.7%	8.1%	8.4%
Non-current assets available for sale			0.0	8.2	2.5	0.0	0.0	0.0
Accounts receivables			2.7	1.9	4.0	2.0	2.0	2.0
Cash and cash equivalents			14.0	8.3	12.0	13.3	14.4	15.4
<b>Total Assets</b>			<b>198.2</b>	<b>203.8</b>	<b>196.0</b>	<b>196.9</b>	<b>201.8</b>	<b>207.3</b>
<b>Total equity and liabilities</b>								
<b>Total equity</b>			<b>76.8</b>	<b>72.7</b>	<b>74.6</b>	<b>78.4</b>	<b>82.4</b>	<b>86.5</b>
as % of total equity and liabilities			38.7%	35.7%	38.0%	39.8%	40.8%	41.7%
Subscribed capital			47.0	47.0	47.0	47.0	47.0	47.0
Capital reserve			46.2	46.2	46.2	46.2	46.2	46.2
Retained earnings			-16.4	-20.2	-18.2	-14.4	-10.4	-6.3
Treasury shares			0.0	-0.3	-0.4	-0.4	-0.4	-0.4
<b>Non-current liabilities</b>			<b>99.4</b>	<b>124.6</b>	<b>107.3</b>	<b>106.4</b>	<b>107.3</b>	<b>108.6</b>
as % of total equity and liabilities			50.1%	61.1%	54.7%	54.0%	53.2%	52.4%
Minority interests			16.5	15.3	14.5	15.6	16.1	16.7
Financial liabilities			78.4	104.0	87.6	86.8	87.1	87.8
Derivative financial instruments			4.2	5.0	5.2	4.0	4.0	4.0
Other liabilities			0.3	0.3	0.0	0.0	0.0	0.0
<b>Current liabilities</b>			<b>22.1</b>	<b>6.5</b>	<b>14.1</b>	<b>12.0</b>	<b>12.1</b>	<b>12.2</b>
as % of total equity and liabilities			11.1%	3.2%	7.2%	6.1%	6.0%	5.9%
Provisions			0.3	0.3	0.2	0.2	0.2	0.2
Financial liabilities			15.9	4.3	11.5	10.1	10.1	10.2
Derivative financial instruments			0.0	0.0	0.0	0.0	0.0	0.0
Trade accounts payables			1.4	0.8	1.1	1.0	1.0	1.0
Other liabilities			4.5	1.1	1.3	0.8	0.8	0.8
<b>Total equity and liabilities</b>			<b>198.2</b>	<b>203.8</b>	<b>196.0</b>	<b>196.9</b>	<b>201.8</b>	<b>207.3</b>

Source: CBS Research AG, Fair Value REIT AG

## Fair Value REIT AG

## Cash flow statement

	IFRS	EURm	2008	2009	2010	2011E	2012E	2013E
<b>Net income</b>			-13.3	-2.9	2.2	5.8	6.9	7.6
Income tax			0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortisation			0.0	0.0	0.0	0.0	0.0	0.0
Result from the disposal of investment properties			-1.3	0.2	0.1	0.0	0.0	0.0
Valuation result			9.7	6.4	4.2	0.0	-0.3	-0.6
Result from equity accounted investments			7.1	-1.4	-3.9	-5.6	-5.3	-5.7
Withdrawal from equity accounted investments			2.5	1.9	2.8	1.9	2.1	2.2
Result of minority shareholders in subsidiaries			-0.4	-0.9	-0.3	1.1	0.5	0.6
Disbursement to minority shareholders in subsidiaries			-1.3	-0.4	-0.5	-1.0	-1.1	-1.2
Valuation result of derivative financial instruments			0.1	0.1	-0.1	0.0	0.0	0.0
<b>Subtotal FFO</b>			<b>3.5</b>	<b>2.9</b>	<b>4.8</b>	<b>2.3</b>	<b>2.9</b>	<b>2.9</b>
Compensation payment received			15.4	0.0	0.5	2.0	0.0	0.0
Change in assets, equity and liabilities			4.4	-4.2	0.0	-0.6	0.0	0.0
<b>Cash flow from operating activities</b>			<b>21.5</b>	<b>-1.3</b>	<b>5.1</b>	<b>3.6</b>	<b>2.9</b>	<b>2.9</b>
Payments for purchase of interests in associates			0.0	-0.1	0.0	0.0	0.0	0.0
Payments for purchase of participations			0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from the sale of subsidiaries			4.7	0.0	0.0	0.0	0.0	0.0
Change in non-current assets			-2.3	2.1	0.0	0.0	0.0	0.0
Income from the sale of subsidiaries			0.0	0.0	0.1	0.0	0.0	0.0
Change in investment properties			1.2	0.3	7.8	2.0	-0.3	-0.4
Investments in PP&E			0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing activities</b>			<b>3.6</b>	<b>2.3</b>	<b>7.9</b>	<b>2.0</b>	<b>-0.3</b>	<b>-0.4</b>
Change in treasury stocks			0.0	-0.3	-0.1	0.0	0.0	0.0
Dividends payment			0.0	0.0	0.0	-0.9	-1.8	-2.3
Net borrowings/retirements of financial debt			-16.4	-8.3	-9.2	-3.4	0.4	0.8
<b>Cash flow from financing activities</b>			<b>-16.4</b>	<b>-8.6</b>	<b>-9.3</b>	<b>-4.3</b>	<b>-1.4</b>	<b>-1.5</b>
<b>Total change in cash and cash equivalents</b>			<b>8.7</b>	<b>-5.8</b>	<b>3.7</b>	<b>1.3</b>	<b>1.2</b>	<b>1.0</b>
Cash and cash equivalents at the start of the period			5.4	14.0	8.3	12.0	13.3	14.4
<b>Cash and cash equivalents at the end of the period</b>			<b>14.0</b>	<b>8.3</b>	<b>12.0</b>	<b>13.3</b>	<b>14.4</b>	<b>15.4</b>

Source: CBS Research AG, Fair Value REIT AG

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