

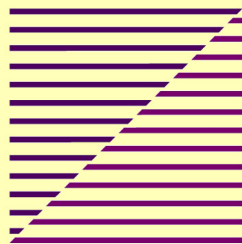


Independent Research

Unabhängige Finanzmarktanalyse GmbH

Research Note

Fair Value REIT-AG



fair value
REIT

Preliminary results 2010

02/25/2011

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Earnings exceed our expectations – dividend proposal positive

Preliminary results 2010

- ⇒ On February 22nd, Fair Value presented its preliminary results for 2010. Adjusted net income in particular surpassed our expectations.
- ⇒ In fiscal year 2010, the group reported a rental result of EUR12.08m (10.46; our forecast: 11.79) and operating income of EUR2.73m (-0.73; our forecast: 6.89 (excluding valuation loss)). The valuation result improved to EUR-4.20m (-6.37).
- ⇒ In our opinion, the negative valuation result reported despite the improved market environment is attributable to individual property with increased vacancies. According to Fair Value, the share of property reporting valuation gains rose significantly in 2010. The directly owned savings banks property is not expected to report significant valuation losses.
- ⇒ Adjusted group net income declined slightly to EUR5.6m (6.0; our forecast: 5.2) and exceeded Fair Value's guidance of EUR5.1m which was raised in November. Reported EPS improved to EUR0.20 (-0.31). As expected, the group plans to pay a dividend of EUR0.10 for 2010 for the first time.
- ⇒ The figures presented by Fair Value were not surprising. As already in the previous quarters stable rental income and successful cost savings were reported. In our view, the increase in NAV per share to EUR7.96 (as of December 31, 2009: 7.78) generated despite the valuation loss has to be underlined.
- ⇒ In our view, the stable portfolio as well as the traditionally high occupancy rate (93.6% (95.5%)) are in favour of Fair Value. In our opinion, pending follow-up renting is no problem. The group should be able to use opportunities to optimise its portfolio also in 2011.

Fair Value REIT-AG 6)

Recommendation: Buy

before:

-

as of

-

Price target (in EUR) (6 months)

8.00

Share price (Xetra) (in EUR)

4.79

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Share price potential

67.01%

Company data

Country	GE
Sector	Financial Services / REIT
Market segment	Prime Standard
ISIN	DE000A0MW975
Reuters	FVIG.DE
Bloomberg	FVI
Internet	www.fvreit.de

Share data

Shares (m)	9.407
Free float	41.42%
Market cap. (EURm)	45.1
Ø Trading volume	4,777
52W High 12/27/10	EUR4.88
52W Low 06/18/10	EUR3.65
Beta	1.15
Volatility (60 days)	40.81

Multiples

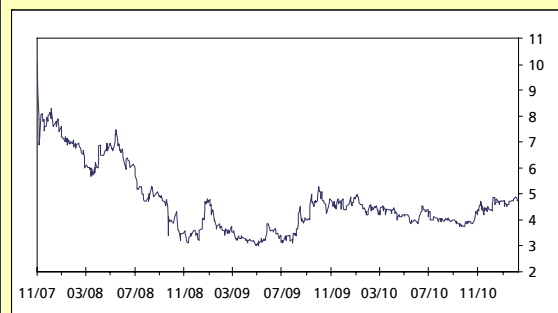
	EV/Sales	EV/EBIT	P/E ratio	Dividend yield
2008	10.7	neg.	neg.	0.0%
2009	13.1	neg.	neg.	0.0%
2010	10.5	46.4	21.5	2.4%
2011E	10.5	18.5	8.2	2.1%
2012E	9.9	18.3	7.8	3.1%

Performance (in %)

	1M	3M	6M	12M
Absolute	3.0	2.0	21.0	10.1
Relative to:				
DAX	1.1	-5.0	1.1	-14.2
Pr. Fin. Services	3.9	-14.4	3.6	-11.5

Index weighting

Prime Fin. Services	0.103%
RX REIT Index	7.830%



Author: Zafer Rüzgar (analyst)

AP	FY	Rental inc.	EBIT	EBT	EAT	EPS
IFRS	2008	12,392	-1,754	-13,301	-13,301	-1.41
IFRS	2009	10,460	-727	-2,906	-2,906	-0.31
IFRS	2010	12,081	2,732	1,860	1,860	0.20
IFRS	2011E	12,280	6,936	5,498	5,498	0.58
IFRS	2012E	12,570	6,814	5,795	5,795	0.62

CAGR 2008 - 2012E 0.4% - - -

Figures in EUR'000 except EPS (in EUR), hist. PERs based on average share prices

1)2)3)4)6) Please notice the advice regarding possible conflicts of interests as well as the disclaimer at the end of this document



- ⇒ We leave our forecasts for 2011 unchanged. The group will present an outlook for the current fiscal year when publishing its final results (March 31, 2011). In our view, a similarly solid development as in 2010 can be expected for 2011. For 2012 (initial forecast) we see rental income of EUR12.57m and operating income of EUR6.81m as well as EPS of EURO.62.
- ⇒ After the significant price increase at the beginning of the year, the Fair Value share reached a new high. However, the share is far below its NAV. In view of the stable earnings situation and the valuation profit expected for 2011, the share is clearly undervalued, in our opinion. The new weighting of the valuation models (DDM now 33.3% (before: 25.0%) due to first-time dividend payout) results in a new price target of EUR8.00 (before: 8.50). We remain committed to our Buy recommendation.

NAV calculation 2009-2012E				
	2009	2010E	2011E	2012E
Fair market value of investment properties	137,587	133,389	133,389	133,389
Equity-accounted participations	47,442	49,304	52,344	55,576
Other assets less other liabilities	3,022	-6,254	-6,598	-7,081
Financial liabilities	108,316	97,829	93,065	88,536
Cash and cash equivalents	8,281	10,987	9,611	8,687
Minority interests	15,296	15,017	16,543	18,042
NAV	72,720	74,580	79,138	83,993
Number of shares (in m)	9,407	9,407	9,407	9,407
NAV per share	7.73	7.93	8.41	8.93
Average NAV per share				8.67

Figures in EUR'000 except for NAV per share (in EUR)
Source: Independent Research; Fair Value REIT-AG

Dividend discount model (DDM)										
in EUR	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
DPS	0.10	0.15	0.17	0.20	0.23	0.26	0.30	0.35	0.40	0.46
Present values	0.09	0.13	0.14	0.15	0.16	0.18	0.19	0.20	0.22	0.23
Sum of present values	1.71									
Terminal value	1.77	in % of total value : 51%								
Fair value per share	3.48									

Model parameters DDM:

Risk-free rate of return : 4.00% Beta : 0.7 Risk premium equity : 4.0%

Cost of equity: 6.8% Date : 02/24/11

Source: Independent Research

Peer group comparison				
Company	P/E		EV/Sales	
	2011E	2012E	2011E	2012E
ALSTRIA OFFICE REIT	-	16.8	13.9	13.5
DIC Asset	27.9	23.4	13.1	13.9
Deutsche Euroshop	18.1	15.8	15.6	13.5
Hamborner REIT	25.0	22.4	14.6	11.2
Average	23.7	19.6	14.3	13.0

Source: Independent Research; Bloomberg

Share prices as of 02/23/2011

	EPS		Sales	
in EUR'000, EPS in EUR	2011E	2012E	2011E	2012E
Fair Value REIT-AG	0.58	0.62	13,875	14,330
Enterprise Value			198,239	186,359
Cash and cash equivalents			10,285	
Debt			-99,919	
Fair market capitalisation			108,605	96,725
Number of shares (in '000)			9,407	
Fair value	13.84	12.09	11.55	10.28
Average	12.96		10.91	
Weighting	1/2		1/2	
Fair value per share	11.94			

Source: Independent Research

Valuation summary			
	NAV	DDM	Peer group
Fair value per share (EUR)	8.67	3.48	11.94
Weighting	33.3%	33.3%	33.3%
Final fair value per share (EUR)	8.02		

Source: Independent Research



Fair Value REIT-AG								
Selected key data								
	Unit : Fiscal year : Accounting standards :	EUR'000 Dec 31 IFRS	2007	2008	2009	2010	2011E	2012E
Key data income statement								
Rental income (EUR'000)			4,326	12,392	10,460	12,081	12,280	12,570
EBITDA margin			neg.	64.5%	54.2%	57.6%	56.7%	54.5%
EBIT margin			neg.	neg.	neg.	22.6%	56.5%	54.2%
Net yield			40.3%	neg.	neg.	15.4%	44.8%	46.1%
Value adjustment ratio			16.8%	78.6%	60.9%	34.7%	0.0%	0.0%
Interest coverage ratio			1.2	0.4	0.2	-0.6	-1.5	-1.5
Profitability ratios								
ROE			1.8%	neg.	neg.	2.5%	6.9%	6.9%
ROI			0.8%	neg.	neg.	0.9%	2.8%	2.9%
Accounting ratios								
Equity ratio			41.1%	38.7%	35.7%	38.0%	40.0%	42.0%
Ratio of equity to non-current assets			44.1%	42.3%	39.2%	40.7%	42.5%	44.4%
Ratio of non-current assets to total assets			93.2%	91.6%	91.0%	93.4%	94.1%	94.6%
Trade accounts receivables/Sales			20.1%	12.1%	12.5%	11.4%	11.7%	12.0%
Key data per share (EUR)								
EPS			0.74	-1.41	-0.31	0.20	0.58	0.62
Free cash flow per share			-25.42	2.66	0.11	1.40	0.46	0.48
Dividend per share			0.00	0.00	0.00	0.10	0.10	0.15
Cash and cash equivalents per share			2.28	1.49	0.88	1.17	1.02	0.92
Book value per share			40.11	8.16	7.73	7.93	8.41	8.93
Valuation ratios								
EV/Sales			29.0	10.7	13.1	10.5	10.5	9.9
EV/EBITDA			neg.	neg.	neg.	45.9	18.4	18.2
EV/EBIT			neg.	neg.	neg.	46.4	18.5	18.3
PER			10.7	neg.	neg.	21.5	8.2	7.8
Price to book value ratio			0.2	0.7	0.5	0.5	0.6	0.5
Price to cash flow ratio			-0.3	neg.	neg.	neg.	neg.	neg.
Price to sales ratio			4.3	4.3	3.5	3.3	3.7	3.6
Dividend yield			0.0%	0.0%	0.0%	2.4%	2.1%	3.1%

Source: Independent Research; Fair Value REIT-AG

Source: Independent Research; Fair Value REIT-AG

Disclaimer

Recommendations concerning particular shares (starting December 18, 2009)

- Buy: According to our assessment, the stock will rise by at least 15% in absolute terms within a 6-month period.
- Hold: According to our assessment, the stock will rise by between 0% and 15% in absolute terms within a 6-month period.
- Sell: According to our assessment, the stock will decline in absolute terms within a 6-month period.

Recommendations concerning particular shares (until December 17, 2009)

- Buy: According to our assessment, the stock will rise by at least 15% in absolute terms within a 6-month period.
- Accumulate: According to our assessment, the stock will rise by between 0% and 15% in absolute terms within a 6-month period.
- Reduce: According to our assessment, the stock will decline by between 0% and 15% in absolute terms within a 6-month period.
- Sell: According to our assessment, the stock will decline by least 15% in absolute terms within a 6-month period.

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Summary of the valuation principles used:

Analyses of shares:

In valuing companies standard and accepted valuation methods (amongst others the Discounted Cash Flow Method (DCF Method), Peer-Group Analysis) are applied. Under the DCF Method the net value of the issuer is calculated, which represents the sum of the discounted company results, i.e. the net present value of the issuer's future net cash flows. The net value is therefore determined with reference to the company's anticipated future results and the discount rate applied. Under the Peer-Group Analysis Method issuers quoted on the Stock Exchange are valued with reference to the comparison of valuation multiples (e.g. price/earnings ratio, price/book value, enterprise value/sales, enterprise value/EBITDA, enterprise value/EBIT). Comparability of the valuation multiples is primarily determined by business activity and economic prospects.

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As at: 02/25/2011

**Independent Research GmbH
Senckenberganlage 10-12
60325 Frankfurt am Main
Germany**

Responsible supervisory authority:
Federal Financial Supervisory Authority
(Bundesanstalt für Finanzdienstleistungsaufsicht)
Graurheindorfer Str. 108, 53117 Bonn
and
Lurgiallee 12, 60439 Frankfurt

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