

# Fair Value REIT-AG

Germany / Real Estate  
 Primary exchange: Frankfurt  
 Bloomberg: FV1 GR  
 ISIN: DE000A0MW975

H1 2012 results

**RATING**  
**BUY**

**PRICE TARGET**  
**€7.80**

Return Potential 93.1%  
 Risk Rating Medium

## UPWARDS REVISION TO FY 2012 EARNINGS GUIDANCE

Fair Value REIT AG published H1 2012 results on 9 August 2012. Rental income was in line with our expectations. On a reported basis, bottom line development fell short of our expectations due to higher sale and valuation expenses and a lower valuation result of derivative financial instruments. On an adjusted basis (EPRA earnings or funds from operations), the company was in line with our forecasts. Due to the better than expected (adjusted) earnings development in H1/12, Fair Value REIT AG increased its earnings forecast for the current fiscal year. Based on slightly revised estimates our combined DCF/NAV model yields an unchanged target price of €7.80. We reiterate our Buy recommendation.

**H1/12 sales and income development** In H1/12, rental income came in at €5.56m (FBe: €5.26m; H1/11: €5.18m), net rental income was €4.33m (FBe: €4.30m; H1/11: €4.39m). SG&A expenses of €1.19m (H1/11: €1.16m) were higher than we had anticipated (€1.03m). In the reporting period, Fair Value REIT AG's ("FV REIT") EBIT was burdened by sale and valuation expenses amounting to €1.01m. Thus, EBIT of €2.15m (FBe: €3.13m; H1/11 €2.95m) fell short of our expectations. In addition, bottom line development was dragged-down by €0.5m y/y due to a lower valuation result of derivative financial instruments in the firm's at equity accounted investments. Consequently, net income of €2.06m (H1/11: €3.20m) was below our estimate (€3.87m)

However, on an adjusted basis (EPRA earnings or funds from operations - "FFO"), net income of €2.88m (FBe: €2.88m; H1/11: €2.86m) met our expectations.

**Further increase in balance sheet NAV** In H1/12, operating cash flow increased to €2.35m (H1/11: €2.09m) - due mainly to higher cash inflows from at equity accounted investments (€2.01m; H1/11: €0.27m). Net cash flows came in at €0.12m (H1/11: €-1.70m). Liquid funds at the end of H1/12 amounted to €7.84m (H1/11: €10.27m) As of June 30, financial debt (short- & long-term) amounted to €87.6m (end of FY/11: €91.0m). (p.t.o)

### FINANCIAL HISTORY & PROJECTIONS

	2009	2010	2011	2012E	2013E	2014E
Revenue (€m)	11.97	14.33	13.33	13.51	13.65	13.78
Y-o-y growth	n.a.	19.8%	-7.0%	1.3%	1.0%	0.9%
EBIT (€m)	-0.73	2.87	6.75	6.11	6.65	6.76
EBIT margin	-6.1%	20.0%	50.6%	45.2%	48.7%	49.1%
Net income (€m)	-2.91	2.23	4.59	4.73	5.97	6.31
EPS (diluted) (€)	-0.31	0.24	0.49	0.51	0.64	0.68
DPS (€)	0.00	0.10	0.08	0.10	0.11	0.12
FCF (€m)	-1.28	5.13	3.58	0.29	2.66	3.03
Equity ratio	35.7%	38.2%	40.5%	41.9%	43.4%	45.1%
Liquid assets (€m)	8.28	11.98	7.73	7.00	7.24	6.95

### RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavorable macroeconomic development, and departure of key personnel.

### COMPANY PROFILE

Fair Value REIT-AG is a real estate investment trust. The firm invests directly and indirectly in real estate. The company focuses on long-term leased office and retail properties in attractive "B" locations and regional centres.

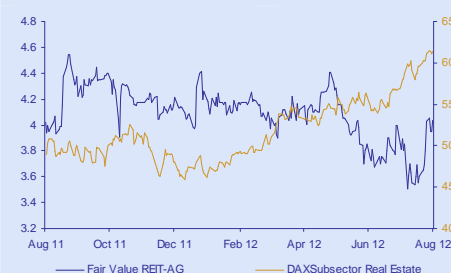
### MARKET DATA

As of 09 Aug 2012

Closing Price	€ 4.04
Shares outstanding	9.33m
Market Capitalisation	€ 37.67m
52-week Range	€ 3.51 / 4.55
Avg. Volume (12 Months)	4,706

Multiples	2011	2012E	2013E
P/E	8.2	8.0	6.3
EV/Sales	8.7	8.6	8.5
EV/EBIT	17.3	19.1	17.5
Div. Yield	2.0%	2.5%	2.8%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2012

Liquid Assets	€ 7.84m
Current Assets	€ 10.71m
Intangible Assets	€ 0.16m
Total assets	€ 189.85m
Current Liabilities	€ 21.63m
Shareholders' Equity	€ 79.31m

### SHAREHOLDERS

H.F.S.	30.5%
IC	18.1%
IFB	5.4%
Other	7.7%
Free Float	38.4%



FV REIT's balance sheet NAV as of the end of June increased to €8.51 per share (end of Q1/12: €8.44; end of FY11: €8.31). The company's REIT equity ratio improved to 52.2% (end of FY11: 51.0%).

**Increased earnings guidance** Due to the better than expected EPRA earnings/FFO development in H1/12, FV REIT increased its earnings guidance for the current fiscal year. Funds from operations are now forecast to reach €5.2m or €0.56 per share (previously: €4.8m or €0.52 per share) in 2012.

**Portfolio update** At the end of July, the company announced that it had sold three properties leased to Sparkasse Südholstein for a total of €1.80m. Proceeds from the sale were on average 7% higher than the properties' market values at the end of 2011 (€1.69m). As of 30 June 2012, the market value of FV REIT's stake in the total portfolio amounted to €221m (end of FY11: €222m). The occupancy rate of the properties held by FV REIT and its participations increased from 93.8% to 95.0%. As of the end of H1/12, the remaining terms of the lease agreements averaged 5.7 years.

**Adjustments to our forecasts** Even though FV REIT's adjusted H1/12 figures were in line with our expectations, we have adjusted our forecasts (on a reported basis) for the current fiscal year (e.g. with regard to higher than expected SG&A costs). Despite the sale of the three "Sparkasse" properties (annualised contractual rent: €0.14m), we have slightly increased our top line estimates for FY12 due to the better than expected H1 rental income development. On the profit side, we have adjusted our estimates for FV REIT's real estate-related operating expenses for the current fiscal year (-€0.2m). Moreover, we also considered the lower valuation result (y/y) of derivative financial instruments in the firm's at equity accounted investments as well as the higher than expected sale and valuation expenses. However, this effect should be at least partly offset by the recently announced sale of the "Sparkasse" buildings. Changes to our forecasts are shown in the table below. Our combined DCF/NAV model yields an unchanged target price of €7.80. We reiterate our Buy recommendation.

**Figure 1: Estimates vs. reported figures**

All figures in €m	H1-12A	H1-12E	Delta	H1-11	Delta
Rental income	5.56	5.26	5.6%	5.18	7.3%
EBIT	2.15	3.14	-31.5%	2.95	-27.1%
margin	38.6%	59.6%	-	56.9%	-
Net income	2.06	3.87	-46.8%	3.20	-35.6%
margin	37.0%	73.6%	-	61.8%	-
EPRA earnings/FFO	2.88	2.88	0.1%	2.86	0.6%

Source: First Berlin Equity Research, Fair Value REIT-AG

**Figure 2: Changes to forecasts**

All figures in €m	2012E			2013E			2014E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Rental income	10.98	11.09	1.0%	11.15	11.25	1.0%	11.33	11.45	1.0%
EBIT	6.35	6.11	-3.9%	6.77	6.65	-1.8%	6.84	6.76	-1.2%
margin	57.9%	55.1%	-	60.8%	59.1%	-	60.4%	59.1%	-
Net income	4.86	4.73	-2.6%	5.97	5.97	0.0%	6.26	6.31	0.7%
margin	44.2%	42.7%	-	53.5%	53.0%	-	55.3%	55.1%	-
EPS (diluted)	0.52	0.51	-2.6%	0.64	0.64	0.0%	0.67	0.68	0.7%

Source: First Berlin Equity Research

**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	11 May 2012	€4.23	Buy	€7.80
	↓	↓	↓	↓
2	16 May 2012	€4.10	Buy	€7.80
3	Today	€4.04	Buy	€7.80

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**STRONG BUY:** Expected return greater than 50% and a high level of confidence in management's financial guidance

**BUY:** Expected return greater than 25%

**ADD:** Expected return between 0% and 25%

**REDUCE:** Expected negative return between 0% and -15%

**SELL:** Expected negative return greater than -15%

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