

Fair Value REIT-AG

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

9M 2012 results

RATING
BUY

PRICE TARGET
€8.00

Return Potential 77.8%
 Risk Rating Medium

IMPRESSIVE TOP-LINE GROWTH

Fair Value REIT-AG ("FV REIT") has published strong 9M 2012 results on 8 November. (Rental) income and operating profit development slightly exceeded our expectations, whereas bottom-line development was markedly higher than we had anticipated due to the better than expected result from at equity accounted investments. However, due to exceptional items in connection with the Alzey property sale and previous year's positive one-off effect associated with the market valuation of interest rate hedges, net income according to IFRS decreased y/y. On an adjusted basis (EPRA earnings or funds from operations), net income increased slightly y/y. Thus, the company confirmed guidance for FY 2012E and still expects EPRA earnings to come in at €5.2m or €0.56 per share. Based on revised estimates for FY 2012E and subsequent years, our updated DCF/NAV model yields a new price target of €8.00 (previously: €7.80). We reiterate our Buy recommendation.

9M bottom-line result surpasses our expectations In 9M/12 rental income increased by 6% y/y to €8.33m (FBe: €8.05m; 9M/11: €7.85m). Net rental income amounted to €6.54m (FBe: €6.40m; 9M/11: €6.27m). EBIT came in at €4.04m (FBe: €3.88m; 9M/11: €4.21m). Due mainly to significantly higher than expected income from at equity accounted investments (€4.01m; FBe: €3.23m), net income of €3.78m (9M/11: €4.52m) or €0.41 (9M/11: €0.48) per share exceeded our forecast (€3.02m or €0.32 per share). Adjusted net income (EPRA earnings or funds from operations - "FFO") amounted to €4.29m (9M/11: €4.18m) or €0.44 (9M/11: €0.45) per share.

Further increase in NAV FV REIT's balance sheet NAV per share as of the end of September further increased to €8.61 (end of H1/12: €8.51; end of FY11: €8.31). As a result of the firm's positive 9M development, FV REIT's equity position increased to €80.29m (end of FY11: €77.47m). The company's REIT specific equity ratio improved to 52.8% (end of FY11: 51.0%). Financial debt (short- and long-term) decreased to €84.86m (end of FY11: €91.03m). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

| | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|--------------------|-------|-------|-------|-------|-------|-------|
| Revenue (€m) | 11.97 | 14.33 | 13.33 | 13.76 | 13.90 | 14.06 |
| Y-o-y growth | n.a. | 19.8% | -7.0% | 3.2% | 1.0% | 1.2% |
| EBIT (€m) | -0.73 | 2.87 | 6.75 | 5.93 | 6.71 | 6.82 |
| EBIT margin | -6.1% | 20.0% | 50.6% | 43.1% | 48.3% | 48.5% |
| Net income (€m) | -2.91 | 2.23 | 4.59 | 5.02 | 6.12 | 6.35 |
| EPS (diluted) (€) | -0.31 | 0.24 | 0.49 | 0.54 | 0.66 | 0.68 |
| DPS (€) | 0.00 | 0.10 | 0.08 | 0.10 | 0.11 | 0.12 |
| FCF (€m) | -1.28 | 5.13 | 3.58 | 2.60 | 3.92 | 4.14 |
| Equity ratio | 35.7% | 38.2% | 40.5% | 42.4% | 43.7% | 45.1% |
| Liquid assets (€m) | 8.28 | 11.98 | 7.73 | 10.27 | 11.77 | 12.56 |

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 Nov 2012

| | |
|-------------------------|---------------|
| Closing Price | € 4.50 |
| Shares outstanding | 9.33m |
| Market Capitalisation | € 41.96m |
| 52-week Range | € 3.51 / 5.05 |
| Avg. Volume (12 Months) | 3,840 |

| Multiples | 2011 | 2012E | 2013E |
|------------|------|-------|-------|
| P/E | 9.6 | 8.8 | 7.2 |
| EV/Sales | 9.3 | 9.0 | 8.9 |
| EV/EBIT | 18.3 | 20.9 | 18.4 |
| Div. Yield | 1.8% | 2.2% | 2.6% |

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2012

| | |
|----------------------|-----------|
| Liquid Assets | € 5.35m |
| Current Assets | € 9.47m |
| Intangible Assets | € 0.15m |
| Total Assets | € 188.36m |
| Current Liabilities | € 20.57m |
| Shareholders' Equity | € 80.29m |

SHAREHOLDERS

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



Due mainly to the decrease in net income y/y, operating cash flow decreased to €2.20m (9M/11: €2.73m). Since the company reduced its financial debt by roughly €6.2m, net cash flow was negative (€-2.37m). Thus, liquid funds as of the end of September decreased YTD to €5.35m (end of FY11: €7.73m). Due to the debt reduction mentioned before, net financial debt at the end of 9M 2012 decreased to €79.51m (end of FY11: €83.30m).

Guidance for current fiscal year confirmed Fair Value REIT confirmed guidance for the current fiscal year. The company still expects EPRA earnings of €5.2m or €0.56 per share.

Portfolio update As already mentioned in the first paragraph, FV REIT's 9M performance was burdened by extraordinary items associated with the sale of the Alzey property (see our comment dated 16 May). In mid-September, the company had also announced that it had sold mixed-use real estate in Pinneberg for €0.7m. The transaction is part of FV REIT's portfolio management strategy which includes the sale of smaller properties. FV REIT had also announced on 24 October, that it has converted 60% of the total area of a bank building in Pinneberg to new usage in close co-operation with previous tenant Sparkasse Südholstein. Accordingly, five new rental agreements with doctor's practices have been concluded, each with a contract term of 10 years. In addition, a rental agreement with a contract term of 15 years has been signed with a pharmacist.

Currently, Fair Value REIT-AG's real estate portfolio consists of 69 (end of FY11: 73) directly or indirectly held properties in Germany. As of 30 September 2012 market value of Fair Value REIT-AG's stake in the portfolio amounted to €220m (end of FY11: €222m). At the end of September 2012 the occupancy rate of the properties held by the group and its participations increased to 95.1% (end of FY11: 93.8%). The average remaining term of lease agreements was 5.5 years (end of FY11: 6.0 years).

Upwards revision to our estimates We have adjusted our estimates for FY 2012 and subsequent years to the better than expected 9M 2012 development. An improved result from at equity accounted investments is the main reason for our higher bottom-line estimate in FY 2012. Changes to our forecasts are shown in figure 2. Our combined DCF/NAV valuation model yields a new price target of €8.00 (previously: €7.50). We reiterate our Buy recommendation.

Figure 1: Reported figures vs. estimates

| All figures in €m | 9M-12A | 9M-12E | Delta | 9M-11A | Delta |
|---------------------|--------|--------|-------|--------|--------|
| Rental income | 8.33 | 8.05 | 3.5% | 7.85 | 6.2% |
| EBIT | 4.04 | 3.88 | 4.2% | 4.21 | -4.1% |
| margin | 48.5% | 48.2% | - | 53.7% | - |
| Net income | 3.78 | 3.02 | 25.3% | 4.52 | -16.3% |
| margin | 45.4% | 37.5% | - | 57.6% | - |
| EPS (in €, diluted) | 0.41 | 0.32 | 25.3% | 0.48 | -16.3% |

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

Figure 2: Changes to estimates

| All figures in €m | 2012E | | | 2013E | | | 2014E | | |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Old | New | Delta | Old | New | Delta | Old | New | Delta |
| Rental income | 11.09 | 11.29 | 1.8% | 11.25 | 11.46 | 1.8% | 11.45 | 11.66 | 1.8% |
| EBIT | 6.11 | 5.93 | -2.8% | 6.65 | 6.71 | 1.0% | 6.76 | 6.82 | 0.8% |
| margin | 55.1% | 52.6% | - | 59.1% | 58.6% | - | 59.1% | 58.5% | - |
| Net income | 4.73 | 5.02 | 6.1% | 5.97 | 6.12 | 2.6% | 6.31 | 6.35 | 0.8% |
| margin | 42.7% | 44.4% | - | 53.0% | 53.4% | - | 55.1% | 54.5% | - |
| EPS (in €, diluted) | 0.51 | 0.54 | 6.1% | 0.64 | 0.66 | 2.6% | 0.68 | 0.68 | 0.8% |

Source: First Berlin Equity Research



Income Statement

| All figures in EUR '000 | 2009A | 2010A | 2011A | 2012E | 2013E | 2014E |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Net sales | 11,965 | 14,333 | 13,334 | 13,761 | 13,898 | 14,065 |
| Real estate-related expenses | 3,437 | 4,798 | 4,580 | 4,804 | 4,848 | 4,895 |
| Net rental income | 8,528 | 9,535 | 8,754 | 8,956 | 9,051 | 9,170 |
| G&A | 2,611 | 2,252 | 2,310 | 2,349 | 2,361 | 2,378 |
| Other operating income (expense) | -6,644 | -4,416 | 304 | -673 | 23 | 23 |
| Operating income (EBIT) | -727 | 2,867 | 6,748 | 5,935 | 6,713 | 6,815 |
| Result from equity-accounted investments | 1,401 | 3,873 | 3,258 | 4,520 | 4,610 | 4,880 |
| Net financial result | -4,525 | -4,765 | -4,522 | -4,506 | -4,162 | -4,264 |
| Pre-tax income (EBT) | -3,851 | 1,975 | 5,484 | 5,948 | 7,161 | 7,432 |
| Income taxes | 0 | -2 | 0 | 8 | 0 | 0 |
| Minority interests | 945 | 255 | -890 | -922 | -1,038 | -1,078 |
| Net income / loss | -2,906 | 2,232 | 4,594 | 5,018 | 6,123 | 6,354 |
| Diluted EPS (in €) | -0.31 | 0.24 | 0.49 | 0.54 | 0.66 | 0.68 |
| EBITDA | -727 | 2,867 | 6,748 | 5,935 | 6,713 | 6,815 |
| Ratios | | | | | | |
| Net rental income margin | 71.3% | 66.5% | 65.7% | 65.1% | 65.1% | 65.2% |
| EBIT margin | -6.1% | 20.0% | 50.6% | 43.1% | 48.3% | 48.5% |
| Net margin | -24.3% | 15.6% | 34.5% | 36.5% | 44.1% | 45.2% |
| Tax rate | 0.0% | -0.1% | 0.0% | 0.1% | 0.0% | 0.0% |
| Expenses as % of revenues | | | | | | |
| G&A | 25.0% | 18.6% | 21.4% | 20.8% | 20.6% | 20.4% |
| Y-Y Growth | | | | | | |
| Revenues | n.a. | 19.8% | -7.0% | 3.2% | 1.0% | 1.2% |
| Operating income | n.a. | n.m. | 135.4% | -12.1% | 13.1% | 1.5% |
| Net income/ loss | n.a. | n.m. | 105.8% | 9.2% | 22.0% | 3.8% |



Balance Sheet

| All figures in EUR '000 | 2009A | 2010A | 2011A | 2012E | 2013E | 2014E |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Assets | | | | | | |
| Current assets, total | 18,416 | 18,483 | 11,304 | 14,951 | 16,438 | 17,217 |
| Cash and cash equivalents | 8,281 | 11,975 | 7,725 | 10,271 | 11,770 | 12,558 |
| Receivables | 1,307 | 1,291 | 1,284 | 1,299 | 1,287 | 1,277 |
| Other current assets | 8,765 | 5,146 | 2,220 | 3,322 | 3,322 | 3,322 |
| Non-current assets, total | 185,393 | 177,480 | 180,078 | 179,124 | 183,458 | 187,786 |
| Investment property (incl. PP&E) | 137,599 | 128,657 | 129,133 | 125,957 | 128,557 | 130,000 |
| Goodwill & other intangibles | 4 | 3 | 180 | 180 | 180 | 180 |
| Equity-accounted investments | 47,442 | 48,551 | 50,748 | 52,966 | 54,700 | 57,585 |
| Other assets | 348 | 269 | 17 | 21 | 21 | 21 |
| Total assets | 203,809 | 195,963 | 191,382 | 194,075 | 199,896 | 205,003 |
| Shareholders' equity & debt | | | | | | |
| Current liabilities, total | 6,476 | 14,128 | 40,405 | 41,142 | 4,528 | 2,290 |
| Short-term debt | 4,312 | 11,547 | 38,217 | 39,025 | 2,276 | 0 |
| Accounts payable | 809 | 1,083 | 1,007 | 1,040 | 1,036 | 1,033 |
| Current provisions | 261 | 241 | 250 | 243 | 243 | 243 |
| Other current liabilities | 1,094 | 1,257 | 931 | 835 | 973 | 1,014 |
| Long-term liabilities, total | 109,317 | 92,783 | 58,769 | 55,803 | 91,067 | 91,067 |
| Long-term debt | 104,004 | 87,556 | 52,810 | 49,830 | 85,094 | 85,094 |
| Other liabilities | 5,313 | 5,227 | 5,959 | 5,973 | 5,973 | 5,973 |
| Minority interests | 15,296 | 14,494 | 14,736 | 14,903 | 15,941 | 17,019 |
| Shareholders' equity | 72,720 | 74,558 | 77,472 | 82,226 | 88,360 | 94,627 |
| Total consolidated equity and debt | 203,809 | 195,963 | 191,382 | 194,075 | 199,896 | 205,003 |
| Ratios | | | | | | |
| Current ratio | 2.84 | 1.31 | 0.28 | 0.36 | 3.63 | 7.52 |
| Quick ratio | 2.84 | 1.31 | 0.28 | 0.36 | 3.63 | 7.52 |
| Financial leverage | 2.80 | 2.63 | 2.47 | 2.36 | 2.26 | 2.17 |
| Book value per share | 7.78 | 8.00 | 8.31 | 8.82 | 9.47 | 10.15 |
| Net cash | -100,035 | -87,128 | -83,302 | -78,584 | -75,600 | -72,536 |
| Return on equity (ROE) | -4.0% | 3.0% | 5.9% | 6.1% | 6.9% | 6.7% |



Cash Flow Statement

| All figures in EUR '000 | 2009A | 2010A | 2011A | 2012E | 2013E | 2014E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| EBIT | -7,097 | -1,371 | 7,058 | 4,611 | 6,713 | 6,815 |
| Depreciation and amortisation | 0 | 0 | 0 | 0 | 0 | 0 |
| EBITDA | -7,097 | -1,371 | 7,058 | 4,611 | 6,713 | 6,815 |
| Changes in working capital | -4,207 | 331 | 1,284 | -940 | 8 | 7 |
| Other adjustments | 10,044 | 6,169 | -4,562 | -869 | -2,552 | -2,384 |
| Operating cash flow | -1,260 | 5,129 | 3,780 | 2,802 | 4,169 | 4,438 |
| CAPEX | -18 | -4 | -199 | -203 | -252 | -303 |
| Free cash flow | -1,278 | 5,125 | 3,581 | 2,599 | 3,917 | 4,135 |
| Debt financing, net | -8,341 | -9,213 | -8,076 | -2,172 | -1,486 | -2,276 |
| Equity financing, net | -290 | -108 | 0 | 0 | 0 | 0 |
| Other changes in cash | 4,151 | 7,890 | 245 | 1,154 | -933 | -1,072 |
| Net cash flows | -5,758 | 3,694 | -4,250 | 1,581 | 1,499 | 788 |
| Cash, start of the year | 14,039 | 8,281 | 11,975 | 7,725 | 10,271 | 11,770 |
| Cash, end of the year | 8,281 | 11,975 | 7,725 | 9,306 | 11,770 | 12,558 |

Y-Y Growth

| | | | | | | |
|---------------------|------|------|--------|--------|-------|------|
| Operating cash flow | n.a. | n.m. | -26.3% | -25.9% | 48.8% | 6.5% |
| Free cash flow | n.a. | n.m. | -30.1% | -27.4% | 50.7% | 5.6% |

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 | 10 August 2012 | €4.04 | Buy | €7.80 |
| 4 | Today | €4.50 | Buy | €8.00 |

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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%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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