

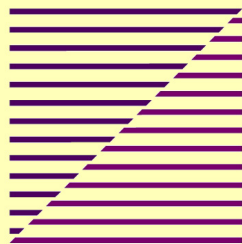


**Independent Research**

Unabhängige Finanzmarktanalyse GmbH

# Research Note

## Fair Value REIT-AG



fair value  
REIT

**Preliminary results 2011**

**03/02/2012**

**Please take note of the information concerning the preparation of this document, the information concerning potential conflicts of interest, the compulsory information required by Section 34b WpHG (Wertpapierhandelsgesetz - German Securities Trading Act), and the liability statement at the end of this document. This financial analysis in the meaning of Section 34b WpHG shall only be distributed to professional clients or eligible counterparties according to Section 31a WpHG.**

## Positive value adjustments in the real estate portfolio Preliminary results 2011

- ⇒ In 2011, sales rose to EUR13.3m (12.1; our forecast: 13.0). EBIT reached EUR6.7m (2.9; our forecast: 6.8) in 2011, being boosted by a valuation result of EURO.8m (-4.2). According to company statements, Fair Value registered an increase in value of 2.6% (2010: -0.2%) of its directly owned real estate properties. The real estate properties of the company's subsidiaries posted a slight increase in value of 1.1% (2010: -6.9%).
- ⇒ At EUR2.8m (3.9; our forecast (adjusted): 5.0), investment income fell short of our expectations, which was primarily accounted for by another decline in value of the real estate portfolio of associated companies (-1.8%; 2010: -1.3%).
- ⇒ Net income for 2011 was EUR4.6m (2.2). Adjusted net income reached EUR5.6m (5.8), which was in line with the company's guidance, which was revised upwards in November 2011.
- ⇒ The dividend of EURO.08 (0.10; our forecast: 0.10) per share failed to meet our expectations as well as the company's previous target (at least EURO.10 per share). Fair Value justified the lower than expected dividend with a lower investment income. The company is going to release final results and issue a detailed guidance on March 29. We are lowering our EPS estimate for 2012 (downward revision of too optimistic assumptions concerning minority interests) to EURO.67 (before: 0.96).
- ⇒ With a price target of EUR7.50 (before: 8.70), we hold on to our Buy recommendation for the Fair Value stock, which continues to trade markedly below NAV (as at December 31, 2011: EUR8.24 (8.00)). We assume that the share price will be stimulated by the company's announcement to take optimisation measures (with regard to both the real estate portfolio and debt). Given the company's solid capital resources (REIT equity ratio: 50.8% (49.6%)), we believe that the risk profile of Fair Value is low.

## Fair Value REIT-AG 6)

**Recommendation: Buy**

**before:**  
as of

-  
-

|   |             |
|---|-------------|
| <b>Price target</b> (in EUR) (6 months)           | <b>7.50</b> |
| Share price (Xetra) (in EUR)<br>02/29/12 12:29 PM | 4.07        |
| Share price potential                             | 84.28%      |

### 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)   | 38.3    |
| ∅ Trading volume     | 2,803   |
| 52W High 06/30/11    | EUR5.15 |
| 52W Low 08/09/11     | EUR3.86 |
| Beta                 | 0.70    |
| Volatility (60 days) | 27.09   |

### Multiples

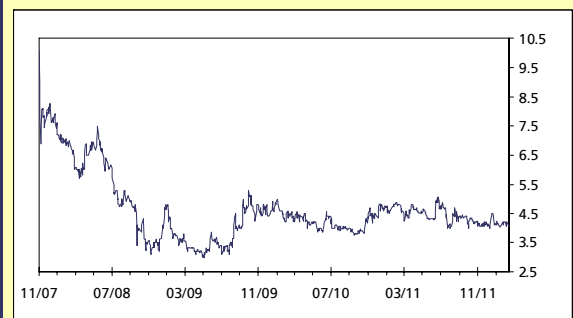
|         | EV/Sales | EV/EBIT | P/E  | Dividend yield |
|---------|----------|---------|------|----------------|
| 2008    | 10.7     | neg.    | neg. | 0.0%           |
| 2009    | 13.1     | neg.    | neg. | 0.0%           |
| 2010    | 10.7     | 45.0    | 18.8 | 2.2%           |
| 2011(E) | 10.9     | 16.7    | 8.3  | 2.5%           |
| 2012E   | 9.9      | 18.0    | 6.1  | 3.7%           |

### Performance (in %)

|                   | 1M   | 3M    | 6M    | 12M   |
|-------------------|------|-------|-------|-------|
| Absolute          | 0.7  | 0.2   | -13.0 | -15.2 |
| Relative to:      |      |       |       |       |
| DAX               | -2.7 | -11.6 | -27.2 | -10.5 |
| Pr. Fin. Services | -    | -     | -     | -     |

### 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 | -13,736 | -13,301 | -1.41 |
| IFRS | 2009    | 10,460      | -727   | -3,851  | -2,906  | -0.31 |
| IFRS | 2010    | 12,081      | 2,867  | 1,975   | 2,232   | 0.24  |
| IFRS | 2011(E) | 11,080      | 7,200  | 5,500   | 4,600   | 0.49  |
| IFRS | 2012E   | 12,159      | 6,661  | 7,661   | 6,284   | 0.67  |

CAGR 2008 - 2012E

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**

## Valuation

In order to value Fair Value REIT-AG we used the NAV calculation, which is the common method for real estate companies, but also a dividend discount model (DDM) and a peer group analysis. As Fair Value is classified as a REIT, it will distribute a large percentage of profit in the future. We still weight the DDM at 33.3%. For the peer group analysis we used real estate companies with a similar business model due to the lack of REITs in Germany. These include real estate investment companies which primarily manage office and commercial properties. The fair value per share results from the weighted average of the three valuation methods.

| NAV calculation 2009-2012E                 |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
|  | 2009          | 2010          | 2011(E)       | 2012E         |
| Fair market value of investment properties | 137,587       | 128,650       | 129,450       | 129,450       |
| Equity-accounted participations            | 47,442        | 48,551        | 49,851        | 53,351        |
| Other assets less other liabilities        | 3,022         | -1,021        | -3,746        | -4,068        |
| Financial liabilities                      | 108,316       | 99,103        | 89,886        | 85,724        |
| Cash and cash equivalents                  | 8,281         | 11,975        | 7,942         | 7,322         |
| Minority interests                         | 15,296        | 14,494        | 15,394        | 16,771        |
| <b>NAV</b>                                 | <b>72,720</b> | <b>74,558</b> | <b>78,217</b> | <b>83,561</b> |
| Number of shares (in m)                    | 9,407         | 9,407         | 9,407         | 9,407         |
| <b>NAV per share</b>                       | 7.73          | 7.93          | <b>8.31</b>   | <b>8.88</b>   |
| <b>Average NAV per share</b>               |               |               |               | <b>8.88</b>   |

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

NAV per share: EUR8.88  
(before: 9.16); fair value  
acc. to DDM: EUR4.04

We have based our valuation of the Fair Value stock on the NAV of the fiscal year 2012 which amounts to EUR8.88 (before: 9.16 (average NAV of the fiscal years 2011 and 2012)). The DDM implies a new fair value per share of EUR4.04 (before: 3.75) due to the temporal adjustment of the model.

| Dividend discount model (DDM) |             |             |             |             |             |             |             |             |             |                           |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------------|
| in EUR                        | 2012E       | 2013E       | 2014E       | 2015E       | 2016E       | 2017E       | 2018E       | 2019E       | 2020E       | 2021E                     |
| <b>DPS</b>                    | <b>0.15</b> | <b>0.17</b> | <b>0.20</b> | <b>0.23</b> | <b>0.26</b> | <b>0.30</b> | <b>0.35</b> | <b>0.40</b> | <b>0.46</b> | <b>0.53</b>               |
| <b>Present values</b>         | <b>0.14</b> | <b>0.15</b> | <b>0.16</b> | <b>0.18</b> | <b>0.19</b> | <b>0.20</b> | <b>0.22</b> | <b>0.23</b> | <b>0.25</b> | <b>0.27</b>               |
| Sum of present values         | 2.00        |             |             |             |             |             |             |             |             |                           |
| Terminal value                | 2.04        |             |             |             |             |             |             |             |             |                           |
|                               |             |             |             |             |             |             |             |             |             | in % of total value : 50% |
| <b>Fair value per share</b>   | <b>4.04</b> |             |             |             |             |             |             |             |             |                           |

**Model parameters DDM:**

|                           |       |                 |      |                      |          |
|---------------------------|-------|-----------------|------|----------------------|----------|
| Risk-free rate of return: | 4.00% | Beta:           | 0.7  | Risk premium equity: | 4.0%     |
|                           |       | Cost of equity: | 6.8% | Date:                | 03/01/12 |

Source: Independent Research

| <b>Peer group comparison</b> |                |              |                 |              |
|------------------------------|----------------|--------------|-----------------|--------------|
| <b>Company</b>               | <b>P/E</b>     |              | <b>EV/Sales</b> |              |
|                              | <b>2011(E)</b> | <b>2012E</b> | <b>2011(E)</b>  | <b>2012E</b> |
| <b>ALSTRIA OFFICE REIT</b>   | 14.5           | 15.8         | 15.4            | 15.9         |
| <b>DIC Asset</b>             | 20.2           | 26.6         | 11.0            | 12.9         |
| <b>Deutsche Euroshop</b>     | 18.9           | 17.6         | 15.5            | 15.7         |
| <b>Hamborner REIT</b>        | 31.1           | 27.7         | 11.7            | 11.6         |
| <b>Average</b>               | 17.0           | 17.6         | 10.7            | 11.2         |

Source: Independent Research; Bloomberg

Share prices as of 02/29/2012

|                                   | <b>EPS</b>     |              | <b>Sales</b>   |              |
|-----------------------------------|----------------|--------------|----------------|--------------|
|                                   | <b>2011(E)</b> | <b>2012E</b> | <b>2011(E)</b> | <b>2012E</b> |
| in EUR'000, EPS in EUR            |                |              |                |              |
| <b>Fair Value REIT-AG</b>         | 0.49           | 0.67         | 13,300         | 13,761       |
| <b>Enterprise value</b>           |                |              | 142,167        | 154,283      |
| <b>Cash and cash equivalents</b>  |                |              | 7,700          |              |
| <b>Debt</b>                       |                |              | -91,000        |              |
| <b>Fair market capitalisation</b> |                |              | 58,867         | 70,983       |
| <b>Number of shares (in '000)</b> |                |              | 9,407          |              |
| <b>Fair value</b>                 |                | 11.73        |                | 7.55         |
| <b>Average</b>                    |                | 11.73        |                | 7.55         |
| <b>Weighting</b>                  |                | 1/2          |                | 1/2          |
| <b>Fair value per share</b>       |                |              |                | <b>9.64</b>  |

Source: Independent Research

| <b>Valuation summary</b>                |            |             |                   |
|---|------------|-------------|-------------------|
|   | <b>NAV</b> | <b>DDM</b>  | <b>Peer group</b> |
| Fair value per share (EUR)              | 8.88       | 4.04        | 9.64              |
| Weighting                               | 33.3%      | 33.3%       | 33.3%             |
| <b>Total fair value per share (EUR)</b> |            | <b>7.51</b> |                   |

Source: Independent Research

| <b>Fair Value REIT-AG</b>                   |                                    |             |             |             |             |                |              |
|---|------------------------------------|-------------|-------------|-------------|-------------|----------------|--------------|
| <b>Selected key data</b>                    |                                    |             |             |             |             |                |              |
|   | <b>Unit :</b> EUR'000              | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011(E)</b> | <b>2012E</b> |
|   | <b>Fiscal year :</b> Dec 31        |             |             |             |             |                |              |
|   | <b>Accounting standards :</b> IFRS |             |             |             |             |                |              |
| <b>Key data income statement</b>            |                                    |             |             |             |             |                |              |
| Rental income (EUR'000)                     |                                    | 4,326       | 12,392      | 10,460      | 12,081      | 11,080         | 12,159       |
| EBITDA margin                               |                                    | neg.        | 64.5%       | 54.2%       | 58.9%       | 57.8%          | 54.9%        |
| EBIT margin                                 |                                    | neg.        | neg.        | neg.        | 23.7%       | 65.0%          | 54.8%        |
| Net yield                                   |                                    | 124.7%      | neg.        | neg.        | 18.5%       | 41.5%          | 51.7%        |
| Value adjustment ratio                      |                                    | 16.8%       | 78.6%       | 60.9%       | 35.1%       | -7.2%          | 0.0%         |
| Interest coverage ratio                     |                                    | 1.2         | 0.4         | 0.2         | -0.6        | -1.6           | -1.8         |
| <b>Profitability ratios</b>                 |                                    |             |             |             |             |                |              |
| ROE   |                                    | 5.7%        | neg.        | neg.        | 3.0%        | 5.9%           | 7.5%         |
| ROI   |                                    | 2.3%        | neg.        | neg.        | 1.1%        | 2.4%           | 3.2%         |
| <b>Accounting ratios</b>                    |                                    |             |             |             |             |                |              |
| Equity ratio                                |                                    | 41.1%       | 38.7%       | 35.7%       | 38.0%       | 40.7%          | 42.8%        |
| Ratio of equity to non-current assets       |                                    | 44.1%       | 42.3%       | 39.2%       | 42.0%       | 43.6%          | 45.6%        |
| Ratio of non-current assets to total assets |                                    | 93.2%       | 91.6%       | 91.0%       | 90.6%       | 93.6%          | 93.9%        |
| Trade accounts receivables/Sales            |                                    | 20.1%       | 12.1%       | 12.5%       | 10.7%       | 12.2%          | 11.4%        |
| <b>Key data per share (EUR)</b>             |                                    |             |             |             |             |                |              |
| EPS   |                                    | 2.29        | -1.41       | -0.31       | 0.24        | 0.49           | 0.67         |
| Free cash flow per share                    |                                    | -24.05      | 2.66        | 0.11        | 1.38        | 0.65           | 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        | 1.27        | 0.87           | 0.80         |
| Book value per share                        |                                    | 40.11       | 8.16        | 7.73        | 7.93        | 8.31           | 8.88         |
| <b>Valuation ratios</b>                     |                                    |             |             |             |             |                |              |
| EV/Sales                                    |                                    | 29.0        | 10.7        | 13.1        | 10.7        | 10.9           | 9.9          |
| EV/EBITDA                                   |                                    | neg.        | neg.        | neg.        | 43.2        | 16.7           | 18.0         |
| EV/EBIT                                     |                                    | neg.        | neg.        | neg.        | 45.0        | 16.7           | 18.0         |
| P/E   |                                    | 3.5         | neg.        | neg.        | 18.8        | 8.3            | 6.1          |
| Price-to-book ratio                         |                                    | 0.2         | 0.7         | 0.5         | 0.6         | 0.5            | 0.5          |
| Price-to-cash flow ratio                    |                                    | -0.3        | neg.        | neg.        | neg.        | neg.           | neg.         |
| Price-to-sales ratio                        |                                    | 4.3         | 4.3         | 3.5         | 3.5         | 3.5            | 3.1          |
| Dividend yield                              |                                    | 0.0%        | 0.0%        | 0.0%        | 2.2%        | 2.5%           | 3.7%         |

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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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.

#### Sensitivity of the valuation parameters:

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**As at: 03/02/2012**

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