

Recommendation:

**BUY** (BUY)

Risk:

**MEDIUM** (MEDIUM)

Price Target:

**EUR 7.60** (7.00)

06 May 2014

## Growth strategy to be implemented

### Buying opportunity for strategic investors

- Fair Value REIT has achieved several successes for its shareholders in FY13 despite being hampered in its growth possibilities. 1) The company more than doubled its dividend reaching an attractive yield of 5%. 2) The complexity in the Group structure was strongly reduced and transparency improved by adopting IFRS 10 and streamlining the portfolio. 3) The significant decrease of interest costs offset the lower income induced by the disposals.
- Now the company is looking for growth by investing in retail properties. The increasing focus is on retail parks with food retail as anchor tenant in growth regions. The recently achieved reduction in the complexity of the Group makes the company more attractive for potential strategic investors submitting a proposal to the major shareholders to buy a good part of their shares. The strategic investors could benefit from an attractive purchase and a growth strategy which involves future capital increases.
- Such a clearance is highly advantageous. The large discount to NAV would significantly fall due to value generation and the increase in market cap and free float would make the stock more interesting for a broader base of investors. Eventually, the currently existing major shareholders would benefit from this development, facilitating them a better exit from their remaining positions in a second selling process after having sold part of their stake to strategic investors in the first step.
- In the case that new strategic investors can buy out the existing major shareholders a growth strategy can be initiated which should lead to a significant decrease of the high NAV discount and to further value creation. Fair Value REIT trades at an attractive discount to balance sheet NAV of around 40% which represents a buying opportunity. However, in case that no strategic investors are found, the company runs the risk of gridlock for probably an extended period of time.
- We updated our model and adjusted our forecasts based on the recently reported FY13 figures and the adoption of IFRS 10. We confirm our BUY recommendation and increase our PT to EUR 7.60 (old: EUR 7.00).

#### Key data

FY 12/31, EUR m	2012	2013	2014E	2015E	2016E
Total revenues	36.7	59.6	25.3	26.1	26.7
EBIT	11.9	5.0	15.4	16.5	17.9
Net result	-0.2	-5.2	5.1	5.8	6.5
EPS	-0.02	-0.56	0.55	0.62	0.70
DPS	0.10	0.25	0.25	0.28	0.32
FFO I per share	0.63	0.69	0.55	0.62	0.70
Dividend yield	2.2%	5.0%	4.9%	5.5%	6.2%
FFO I yield	14.0%	13.6%	10.8%	12.3%	13.9%
ROE	-0.2%	-6.6%	6.2%	6.8%	7.4%
Net debt LTV	55.3%	55.7%	54.1%	53.2%	52.2%
P/NAV	0.53	0.58	0.57	0.54	0.52
P/EPRA NAV	0.48	0.57	0.55	0.53	0.51
P/E	neg.	neg.	9.2	8.1	7.2

Source: Fair Value REIT-AG, CBS Research AG

Share price (dark) vs. CDAX



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

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
Tot. Rev.	25.3	10.1	26.1	10.4	26.7	-
EBIT	15.4	5.8	16.5	6.3	17.9	-
EPS	0.55	0.62	0.62	0.69	0.70	-

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>5.06</b>
Shares outstanding (m):	9.3
Market capitalisation (EUR m):	47.2
Enterprise value (EUR m):	221.0
Ø daily trading volume (3 m., no. of shares):	7,489

#### Performance data:

High 52 weeks (EUR):	5.89
Low 52 weeks (EUR):	4.09
Absolute performance (12 months):	17.5%
Relative performance vs. CDAX:	
1 month	1.1%
3 months	5.0%
6 months	4.8%
12 months	-0.5%

#### Shareholders:

H.F.S.	30.5%
IC	15.7%
IFB	5.4%
Others and free float	48.4%

#### Financial calendar:

1Q 2014 figures	08 May 2014
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## SWOT Analysis

### Strengths

- Tenant structure is characterised by high quality (for instance Sparkasse Südholstein, Metro or EDEKA)
- A streamlined organisation of the internal management structure (three employees including the management board)
- Retail segment contributes through its longer lease terms to yield stability and thus is limiting the risks in the portfolio
- Very strong FFO I yield (13.6% as at 31 December 2013)
- Competitive dividend yield of 5% (as at 31 December 2013)

### Weaknesses

- Small market cap
- Key person risk Mr. Frank Schaich (CEO)
- In general, REIT's growth can only occur through capital increases
- New strategy execution risk due to non-existent track record of Fair Value REIT acquiring a significant number of new properties

### Opportunities

- In the case that new strategic investors can buy out the existing major shareholders a growth strategy can be initiated
- The strategy to focus on retail parks, with food retail as an anchor tenant in growth regions, seems promising to us
- The new growth strategy should lead to a significant decrease of the high NAV discount and to further value creation
- Fair Value REIT trades at an attractive discount to balance sheet NAV of around 40% which represents a buying opportunity

### Threats

- In the case that no strategic investors are found, the company runs the risk of gridlock for probably an extended period of time
- Rising interest rates in a possible inflation scenario could lead to higher interest rate costs
- Typical risks of purchasing properties

## Achieving successes despite boundaries

Fair Value REIT has achieved several successes for its shareholders in FY 2013 despite being hampered in its growth possibilities partly due to shareholder structure issues.

The company was able to more than double its dividend per share from around EUR 0.10 for the last years to EUR 0.25 for FY 2013. This was due to substantial portfolio adjustments that had a sustainable positive impact on German GAAP earnings with the sale of several properties and the termination of a non-strategic participation in return for a settlement at fair market value. The dividend yield went up to an attractive level of 5% from approx. 2% in the prior years. The FFO payout ratio increased from around 20% to around 40%.

By adopting IFRS 10, the company has removed a lot of complexity from its financial statements and simplified the Group structure. Fair Value REIT now fully consolidates its equity accounted investments thereby improving its transparency. From 2014 onwards it would have been obligatory to adopt IFRS 10 anyway. The financial statements FY 2012 were restated accordingly.

Additionally Fair Value REIT significantly streamlined its portfolio since FY 2013 by disposing non-core properties and non-core participations. In FY 2013 the company sold 11 properties with a value of EUR 31m that was 2% above book value. This reduced the number of properties by 17% to 49 and the portfolio volume by 6.6% to EUR 432m. The cancellation of the 25% stake in the participation BBV 9 effective end of 2013 was also an important step; driving down the portfolio volume by EUR 107m (23%) and 5 properties. In 2014, the company sold 5 properties thereby decreasing the portfolio volume to EUR 289m as at April 2014.

The lower rental income and income from equity accounted investments induced by disposals were offset by lower interest costs. As of 31 December 2013, the weighted interest rate of financial liabilities significantly fell to 2.8% p.a. vs. 4.3% in the prior year. This was on the back of expired and partially cancelled interest hedging transactions of financial liabilities. The amount of financial liabilities hedged with interest rate swaps notably decreased to EUR 10m or 5.2% of the financial liabilities compared to EUR 71.9m or 33.2% in FY 2012. This has been reduced to EUR 5m at the end of January 2014.

### Structure of financial liabilities

Interest conditions	31 December 2013	In %
Fixed	58	30%
Swap	10	5%
Variable	124	65%
<b>Total</b>	<b>192</b>	<b>100%</b>

Source: Fair Value REIT-AG, CBS Research AG

The work on the company's asset and Group structure to reduce complexity has started to pay off. The stock has started to rise notably, also because of doubling the dividend.

**Successes for its shareholders despite growth limitations**

**More than doubled the dividend reaching an attractive yield of 5%**

**Reduction of complexity and improvement of transparency by adoption of IFRS 10...**

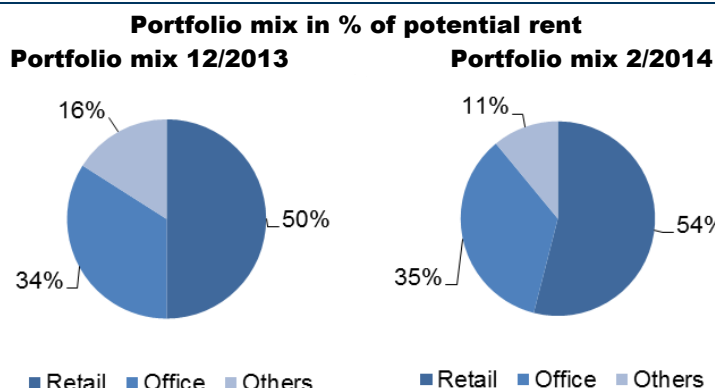
**... and by streamlining the portfolio**

**Significant decrease of interest cost offsets lower income induced by disposals**

## Looking for growth with retail properties

Fair Value REIT has a clear strategy for its intended expansion. In its future investments, the focus will be on retail parks with food retail as anchor tenant. The investments in office properties will be limited to opportunities in single cases. The change in the portfolio mix towards a higher weighting has already started.

**Increasing focus on retail parks with food retail as anchor tenant**

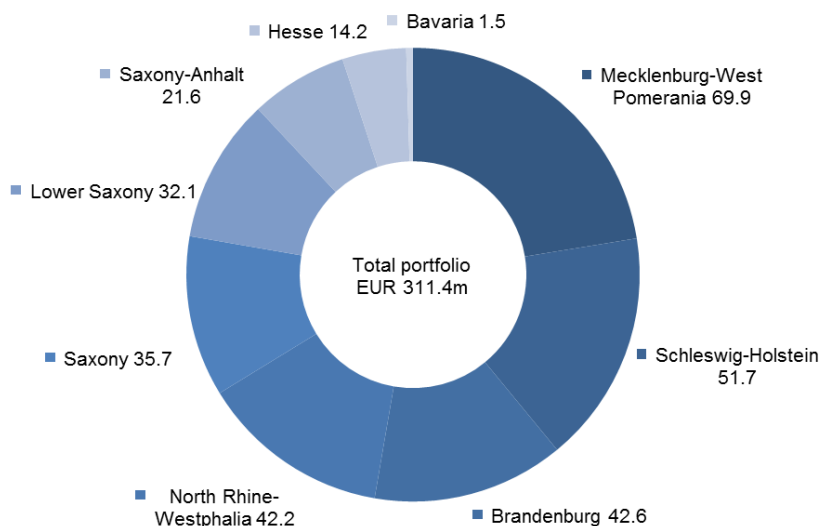


Source: Fair Value REIT-AG, CBS Research AG

The company prefers growth regions like Bavaria, Baden-Württemberg and Rhineland-Palatinate for its future investments. Locating the properties in economically strong regions improves the reliability of the generated cash flows. However, given the current regional split, a complete geographical re-orientation of the portfolio will be more realistic in the mid-term rather than in the short-term.

**Preferring growth regions for acquisitions**

### Current regional portfolio split in EURm (market value)



Source: Fair Value REIT-AG, CBS Research AG

The strategy to invest in retail property has certain advantages. In general, retail properties have longer lease terms than office properties and enjoy a certain grandfathering. Also, the prolongation of a lease contract can more likely be with a well running retail property than with an office property.

**Investing in retail properties has certain advantages**

When it comes to the question if the focus on retail properties makes the portfolio vulnerable to the increasing trend of online shopping, it seems to be a wise decision to have food retail as anchor tenant in Fair Value REIT's future investments. According to PricewaterhouseCoopers, a clear majority of consumers prefer the internet for purchases of books, music, films and video games (78%), consumer electronics (61%) and toys (53%). The majority of consumers visit shops mainly to buy everyday products like food, toiletries and cosmetics, DIY supplies and household goods.

## Looking for a strategic investor to grow

A crucial point for initiating the growth strategy is the ability to raise capital. In this regard, the company has been hampered by the share price quoting below par value. Apart from that a capital increase would have led to a strong dilution for the existing shareholders. The share price has been quoting with a very high discount of 40% to 57% to balance sheet NAV in the past.

The share price of Fair Value REIT has recently risen considerably on the back of doubling the dividend and taking out a good part of the complexity in the financial statements. The discount to balance sheet NAV has dropped to 39% meanwhile but is still very high. However, the management indicates that the major shareholders could be willing to sell a large part of their stake to strategic investors at present, which represents a window of opportunity.

This would open up the way for capital increases giving the company the opportunity to grow through NAV and FFO enhancing acquisitions; creating large economies of scale through their lean cost structure and generating value for their shareholders. Eventually, the currently existing major shareholders would benefit from this development, facilitating them a better exit from their remaining positions in a second selling process after having sold part of their stake to strategic investors in the first step.

Such a clearance is highly advantageous. The large discount to NAV would significantly fall due to value generation and the increase in market cap and free float would make the stock more interesting for a broader base of investors.

The recently achieved reduction in the complexity of the Group makes the company more attractive for potential strategic investors submitting a proposal to the major shareholders to buy a good part of their shares. The strategic investors could benefit from an attractive purchase opportunity.

**Having a food retail anchor tenant should serve as protection against the increasing trend of online shopping**

**Fair Value REIT has been hampered to conduct capital increases by the share price quoting below par value**

**Window of opportunity: major shareholders could be willing to sell to strategic investors at present...**

**... opening up the way for external growth which generates value for shareholders...**

**... which would lead to a significant decrease of the large discount to NAV**

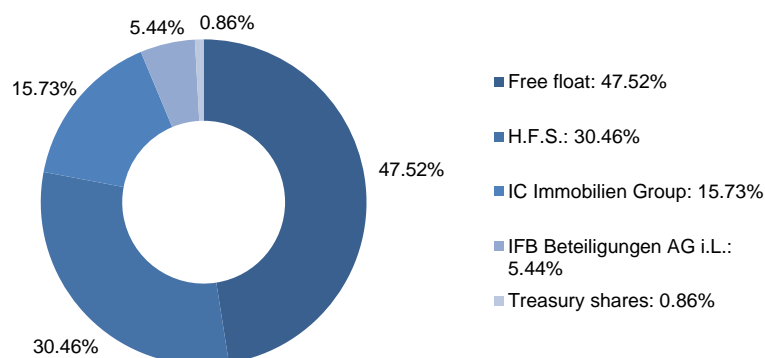
**The reduced complexity makes the company more attractive for investors**

## Shareholder structure

30.5% of the shareholder structure of Fair Value REIT is made up of H.F.S. Zweitmarkt Invest and 15.7% to IC Immobilien Group. These are the two major shareholders of the company which could be addressed by strategic investors, in our view. Actually H.F.S. and IC hold 32.41% and 18.07% as each of them has a subsidiary that holds less than 3% which is therefore classified as free float. A further shareholder is IFB Beteiligungen AG i.L. with 5.4%. The free float amounts to 47.5%.

**H.F.S. and IC are the two major shareholders that could be addressed by strategic investors**

### Shareholder structure



Source: Fair Value REIT-AG, CBS Research AG

H.F.S. Zweitmarkt Invest Group are subsidiaries of closed-end real estate funds which were issued by H.F.S. HYPO-Fondsbeteiligungen für Sachwerte GmbH and which are managed by UniCredit.

**H.F.S. Zweitmarkt Invest Group**

The IC Immobilien Group (IC) is a full service provider with various specialised Group companies, offering all real estate services from a single source for private and institutional investors in Germany and other countries. IC has been operating actively for over twenty years locally and internationally in the real estate sector.

**IC Immobilien Group**

The listed REIT companies are obliged to ensure that there is a minimum free float in the shareholder structure in order to make sure that ample opportunities are opened up for smaller investors to invest in tradable real estate wealth. In the long term at least 15% of shares must be in the possession of shareholders who do not hold more than 3% (i.e. a minimum of 15% free float) of the share capital. Furthermore, a single shareholder can directly hold only less than 10% of the subscribed capital of the company. That is the reason why H.F.S. and IC allocated their shares in Fair Value REIT to subsidiaries that they control.

**A single shareholder can directly hold only less than 10% of the subscribed capital of the company**

Shareholder structure of H.F.S. and IC	Share
H.F.S. Zweitmarkt Invest 2 GmbH & Co. KG	8.13%
H.F.S. Zweitmarkt Invest 3 GmbH & Co. KG	7.44%
H.F.S. Zweitmarkt Invest 4 GmbH & Co. KG	7.44%
H.F.S. Zweitmarkt Invest 5 GmbH & Co. KG	7.44%
<b>H.F.S.</b>	<b>30.46%</b>
IC Immobilien Holding AG	9.39%
IC Immobilien Service GmbH	6.34%
<b>IC Immobilien Group</b>	<b>15.73%</b>

Source: Fair Value REIT-AG, CBS Research AG



## Important capital structure topics at the AGM

Fair Value REIT will hold its AGM on 27 May and put several important topics on the agenda that concerns the capital structure. The proposals will significantly improve the financial flexibility of the company and are essential preconditions for a growth strategy.

### Proposal to reduce the subscribed capital

The proposal is to reduce the nominal value per share to EUR 2.00 from currently EUR 5.00. The reduction amount of EUR 3.00 per share will be deducted from the subscribed capital and added to the capital reserve. Therefore the total amount of shareholder's equity, the number of shares and above all the quoted price per share will remain the same.

At present, the intent of a capital increase would be accompanied by a lot of uncertainty whether the issuance of shares could take place. This is due to the rule that the share of a company shall not trade below its nominal value when a capital increase is conducted. As the share of Fair Value REIT currently trades around its nominal value of EUR 5.00, a reduction of the subscribed capital would solve this problem.

Another advantage is that Fair Value REIT would be enabled to stabilise its dividend payments by using the funds of the capital reserve in case that the normal dividend payout would fall short for once.

### Proposal to create authorised and conditional capital

Fair Value REIT currently does not possess any utilisable authorised and conditional capital. The proposal is to create an authorised capital of 4.7m new shares (50% of the subscribed capital) and a conditional capital of also 4.7m new shares (50% of the subscribed capital); which is also an essential precondition for the growth strategy.

## Strategic summary

To put it in a nutshell, Fair Value REIT has the following strategy and targets:

- 1) Continuation of focussing the portfolio on retail properties
  - Reduction of properties with other type of use (e.g. logistics)
  - Increase of weighting of retail properties
- 2) Reduction of minorities
  - Disposal of non-core properties; however, disposals will be smaller than in the past as streamlining is mostly done and further significant erosion of income would not be beneficiary
  - Purchase of minority stakes when it matches the strategy
- 3) Reduction of administrative costs
  - Gradually liquidating SPVs e.g.
- 4) Increase of dividend potential
  - Target is 50% FFO payout ratio (currently 36.4% for FY 2013, guidance for FY 2014 is 45%)
- 5) Decrease of the high discount to NAV

**Improving financial flexibility and essential preconditions for a growth strategy**

**Quoted price per share will remain the same despite reduction of subscribed capital...**

**... which makes sure that a capital increase can take place without difficulties**

**Stabilisation of dividend payments would be possible**

**Remedying lacking authorised and conditional capital**



## Peer comparison and valuation

We weighted the peer group model and the NAV market model equally with 50%. The peer group model represents the upper part of the valuation range with EUR 8.69 per share while the NAV market model result is at the lower part of the range with a fair value of EUR 6.54 per share. The combination of the two models results in a fair value of EUR 7.61 per share for Fair Value REIT.

**Consolidation of valuation methods results in fair value of EUR 7.61 per share**

### Consolidation of valuation methods

	Weighting factor	Fair value per share (EUR)
Peer group model	50.0%	8.69
NAV market model	50.0%	6.54
<b>Fair value per share (EUR)</b>		<b>7.61</b>

Source: CBS Research AG

## Peer group valuation

First, we give a comparison of the key figures and ratios ROE, FFO I yield and dividend yield based on the data as at 31 December 2013 before we proceed to the valuation process.

As at 31 December 2013	Alstria	Deutsche Euroshop	Fair Value REIT	Hamborner	POLIS	VIB
ROE	4.6%	12.4%	-6.6%	2.6%	5.2%	8.0%
FFO I yield	6.2%	6.5%	13.6%	7.1%	4.1%	9.2%
Dividend yield	5.5%	3.9%	5.0%	5.4%	0.0%	3.9%

Source: Companies, Bloomberg, CBS Research AG

Fair Value REIT has a competitive dividend yield of 5.0% and the strongest FFO I yield of the peer group with 13.6%. The large delta between FFO I yield and dividend yield has to do with the different accounting rules of IFRS and German GAAP that affect Fair Value REIT most due to their small business size. The REIT regulations stipulate that dividend payout is linked to German GAAP earnings. The negative ROE of -6.6% is due to the property valuation losses that had to be booked in 4Q 2013.

**Competitive dividend yield and very strong FFO I yield**

## Peer group: Company data in EURm

Company name	Market cap.	EV	EBIT			EPS (EUR)		
			2014E	2015E	2016E	2014E	2015E	2016E
ALSTRIA OFFICE REIT-AG	785	1,599	83	85	86	0.60	0.64	0.67
DEUTSCHE EUROSHP AG	1,883	3,334	175	178	183	2.09	2.17	2.09
HAMBORNER REIT AG	363	658	29	26	25	0.37	0.42	0.24
POLIS IMMOBILIEN AG	136	295	13	14		0.66	0.70	
VIB VERMOEGEN AG	279	725	53	55	58	1.10	1.10	1.16
<b>Average</b>	<b>689</b>	<b>1,322</b>	<b>71</b>	<b>72</b>	<b>88</b>	<b>n/m</b>	<b>n/m</b>	<b>n/m</b>
<b>Median</b>	<b>363</b>	<b>725</b>	<b>53</b>	<b>55</b>	<b>72</b>	<b>n/m</b>	<b>n/m</b>	<b>n/m</b>
FAIR VALUE REIT-AG	48	221	15	16	18	0.55	0.62	0.70

Source: CBS Research AG, Bloomberg

## Peer Group: Multiples

Company name	EV / EBIT			P / E		
	2014E	2015E	2016E	2014E	2015E	2016E
ALSTRIA OFFICE REIT-AG	19.2	18.7	18.5	16.6	15.6	14.9
DEUTSCHE EUROSHP AG	19.1	18.8	18.2	16.7	16.1	16.7
HAMBORNER REIT AG	22.7	25.8	26.5	21.4	19.3	33.3
POLIS IMMOBILIEN AG	22.7	21.4		18.6	17.6	
VIB VERMOEGEN AG	13.6	13.1	12.6	11.9	11.8	11.3
<b>Average</b>	<b>19.5</b>	<b>19.6</b>	<b>18.9</b>	<b>17.0</b>	<b>16.1</b>	<b>19.1</b>
<b>Median</b>	<b>19.2</b>	<b>18.8</b>	<b>18.4</b>	<b>16.7</b>	<b>16.1</b>	<b>15.8</b>
FAIR VALUE REIT-AG	14.4	13.4	12.3	9.2	8.1	7.2

Source: CBS Research AG, Bloomberg

EURm, except EPS (EUR)	EBIT			EPS		
	2014E	2015E	2016E	2014E	2015E	2016E
Fair Value REIT-AG: Financial estimates CBS Research	15.4	16.5	17.9	0.55	0.62	0.70
Applied multiples: Peer group median	19.2	18.8	18.4	16.7	16.1	15.8
<b>Enterprise value (derived)</b>	<b>295.1</b>	<b>308.9</b>	<b>329.6</b>	-	-	-
+ Excess cash and marketable securities						
- Financial debt and minority interest						
<b>Market capitalisation (derived)</b>	<b>121.3</b>	<b>135.1</b>	<b>155.8</b>	<b>85.5</b>	<b>93.4</b>	<b>103.4</b>
<b>Average</b>	<b>115.7</b>					
Premium (discount) vs. Peer Group	-30%					
<b>Fair market capitalization (after discount)</b>	<b>81.0</b>					
Number of shares (m)	9.3					
<b>Fair value per share (EUR)</b>	<b>8.69</b>					

Source: CBS Research AG, Bloomberg

The peer group model results in a market cap of EUR 115.7m. For conservative reasons we have chosen the median of the derived market capitalisations instead of the average to eliminate any outliers. After applying a 30% discount to consider the small market cap of Fair Value REIT, the peer group model results in a fair market cap of EUR 81.0m or EUR 8.69 per share.

**Peer group model results in a fair value of EUR 8.69 per share**

## NAV market model

### Peer Group: NAV Premium / Discount

Company name	NAV per share (EUR)	Share price (EUR)	Premium / Discount to NAV (in %)
ALSTRIA OFFICE REIT-AG	10.69	9.95	-7.0%
DEUTSCHE EUROSHOP AG	26.49	34.90	31.8%
HAMBORNER REIT AG	7.78	7.99	2.7%
POLIS IMMOBILIEN AG	14.44	12.30	-14.8%
VIB VERMOEGEN AG	13.88	13.08	-5.8%
<b>Average</b>			<b>1.4%</b>
<b>Median</b>			<b>-5.8%</b>
FAIR VALUE REIT-AG	8.65	5.06	-41.5%

Source: CBS Research AG, Bloomberg, company data

### NAV market model

EURm, except NAV per share (EUR)	NAV		
	2014E	2015E	2016E
Fair Value REIT-AG: Financial estimates CBS Research			
NAV before market discount	83.5	87.0	90.9
<b>NAV per share before market discount (EUR)</b>	<b>8.95</b>	<b>9.33</b>	<b>9.75</b>
Market discount	-30%	-30%	-30%
NAV after market discount	58.4	60.9	63.6
<b>NAV per share after market discount (EUR)</b>	<b>6.26</b>	<b>6.53</b>	<b>6.82</b>
Ø NAV before market discount	87.1		
Shares outstanding (in millions)	9.3		
<b>Ø NAV per share before mkt discount (EUR)</b>	<b>9.34</b>		
Market discount	-30%		
<b>Fair value per share (EUR)</b>	<b>6.54</b>		

Source: CBS Research AG

We apply a conservative discount of 30% on the average NAV per share before market discount from 2014E to 2016E. The calculation gives us a fair value of EUR 6.54 per share for Fair Value REIT. Applying a discount of 20%, similar to POLIS which is the most reasonable proxy considering market cap, the result would be a fair value of EUR 7.47 per share for Fair Value REIT.

**NAV market model  
results in fair value of  
EUR 6.54 per share**

## Preview 1Q 2014 figures

Fair Value REIT is going to report 1Q 2014 figures on 8 May. We do not expect any major surprises and forecast a FFO I between EUR 1.10m and EUR 1.40m.

## Appendix

### Fair Value REIT-AG

#### Profit and loss account

	IFRS	EURm	2012	2013	2014E	2015E	2016E
<b>Rental income</b>			<b>31.5</b>	<b>29.6</b>	<b>25.3</b>	<b>26.1</b>	<b>26.7</b>
YoY growth			-	-5.9%	-14.8%	3.3%	2.2%
Income and expenses related to rental income			-6.2	-6.5	-7.3	-7.2	-7.1
<b>Net rental result</b>			<b>25.3</b>	<b>23.1</b>	<b>17.9</b>	<b>18.9</b>	<b>19.6</b>
Result from sale of investment properties			0.1	-0.7	0.0	0.0	0.0
<b>Total earnings</b>			<b>25.3</b>	<b>22.4</b>	<b>17.9</b>	<b>18.9</b>	<b>19.6</b>
SG&A			-3.5	-3.3	-2.9	-3.0	-3.0
Total other operating income and expenses			-0.2	0.0	0.0	-0.1	-0.1
<b>EBITDA</b>			<b>21.7</b>	<b>19.0</b>	<b>15.1</b>	<b>15.9</b>	<b>16.5</b>
in % of total earnings			85.5%	85.2%	84.1%	84.0%	84.2%
Valuation result			-9.7	-14.0	0.3	0.6	1.5
<b>EBIT</b>			<b>11.9</b>	<b>5.0</b>	<b>15.4</b>	<b>16.5</b>	<b>17.9</b>
in % of total earnings			47.1%	22.4%	85.7%	87.1%	91.7%
Financial result			-12.1	-10.2	-5.2	-4.8	-4.9
<b>Net income including minorities</b>			<b>-0.2</b>	<b>-5.2</b>	<b>10.2</b>	<b>11.6</b>	<b>13.1</b>
Minority interests			0.0	0.0	-5.1	-5.8	-6.5
<b>Net income attributable to shareholders</b>			<b>-0.2</b>	<b>-5.2</b>	<b>5.1</b>	<b>5.8</b>	<b>6.5</b>
in % of total earnings			-0.7%	-23.4%	28.5%	30.8%	33.4%
Shares outstanding (in millions)			9.3	9.3	9.3	9.3	9.3
<b>Earnings per share (EUR)</b>			<b>-0.02</b>	<b>-0.56</b>	<b>0.55</b>	<b>0.62</b>	<b>0.70</b>
<b>EPRA net earnings / FFO</b>			<b>5.9</b>	<b>6.4</b>	<b>5.1</b>	<b>5.8</b>	<b>6.5</b>
<b>EPRA net earnings / FFO per share</b>			<b>0.63</b>	<b>0.69</b>	<b>0.55</b>	<b>0.62</b>	<b>0.70</b>
<b>Dividend per share (EUR)</b>			<b>0.10</b>	<b>0.25</b>	<b>0.25</b>	<b>0.28</b>	<b>0.32</b>

Source: CBS Research AG, Fair Value REIT-AG

## Fair Value REIT-AG

## Balance Sheet

	IFRS	EURm	2012	2013	2014E	2015E	2016E
<b>Assets</b>							
<b>Non-current assets</b>			<b>366.7</b>	<b>292.5</b>	<b>293.6</b>	<b>295.0</b>	<b>297.4</b>
as % of total assets			95.2%	84.6%	88.7%	87.9%	87.3%
Intangible assets			0.1	0.1	0.0	0.0	0.0
PP&E			0.0	0.1	0.0	0.0	0.0
Investment properties			355.9	292.3	293.5	294.9	297.3
Equity accounted investments			10.6	0.0	0.0	0.0	0.0
Other receivables and assets			0.0	0.0	0.1	0.1	0.1
<b>Current assets</b>			<b>18.4</b>	<b>53.4</b>	<b>37.5</b>	<b>40.4</b>	<b>43.5</b>
as % of total assets			4.8%	15.4%	11.3%	12.1%	12.7%
Non-current assets available for sale			0.0	19.6	0.0	0.0	0.0
Accounts receivables			4.2	16.4	16.4	16.4	16.4
Cash and cash equivalents			14.2	17.4	21.1	24.0	27.0
<b>Total Assets</b>			<b>385.1</b>	<b>345.9</b>	<b>331.1</b>	<b>335.5</b>	<b>340.9</b>
<b>Total equity and liabilities</b>							
<b>Total equity</b>			<b>80.4</b>	<b>80.7</b>	<b>83.5</b>	<b>87.0</b>	<b>90.9</b>
as % of total equity and liabilities			20.9%	23.3%	25.2%	25.9%	26.7%
Subscribed capital			47.0	47.0	47.0	47.0	47.0
Capital reserve			46.2	46.2	46.2	46.2	46.2
Retained earnings			-12.4	-12.1	-9.3	-5.8	-1.9
Treasury shares			-0.4	-0.4	-0.4	-0.4	-0.4
<b>Non-current liabilities</b>			<b>243.6</b>	<b>194.3</b>	<b>226.9</b>	<b>227.7</b>	<b>229.0</b>
as % of total equity and liabilities			63.3%	56.2%	68.5%	67.9%	67.2%
Minority interests			73.6	65.6	65.6	65.6	65.6
Financial liabilities			160.8	126.6	161.2	162.0	163.3
Derivative financial instruments			9.1	2.1	0.0	0.0	0.0
Other liabilities			0.1	0.0	0.0	0.0	0.0
<b>Current liabilities</b>			<b>61.1</b>	<b>70.9</b>	<b>20.8</b>	<b>20.8</b>	<b>21.0</b>
as % of total equity and liabilities			15.9%	20.5%	6.3%	6.2%	6.2%
Provisions			0.4	0.4	0.3	0.3	0.3
Financial liabilities			55.9	64.6	18.7	18.8	19.0
Derivative financial instruments			0.0	0.0	0.0	0.0	0.0
Trade accounts payables			1.7	2.2	1.0	1.0	1.0
Other liabilities			3.1	3.7	0.8	0.8	0.8
<b>Total equity and liabilities</b>			<b>385.1</b>	<b>345.9</b>	<b>331.1</b>	<b>335.5</b>	<b>340.9</b>

Source: CBS Research AG, Fair Value REIT-AG

## Fair Value REIT-AG

## Cash flow statement

	IFRS	EURm	2012	2013	2014E	2015E	2016E
Net income			-0.2	-5.2	5.1	5.8	6.5
Cash flow from operating activities			7.8	1.4	0.6	5.2	5.1
Cash flow from investing activities			3.3	29.1	18.8	-0.9	-0.9
Cash flow from financing activities			-15.7	-27.3	-15.7	-1.4	-1.2
Total change in cash and cash equivalents			-4.6	3.2	3.7	2.9	3.0
Cash and cash equivalents at the start of the period			18.8	14.2	17.4	21.1	24.0
Cash and cash equivalents at the end of the period			14.2	17.4	21.1	24.0	27.0

Source: CBS Research AG, Fair Value REIT-AG

## Fair Value REIT-AG

## Ratios and key figures

	2012	2013	2014E	2015E	2016E
<b>Margins</b>					
Net rental income (NRI) margin	80.3%	77.9%	71.0%	72.4%	73.3%
SG&A / total earnings	13.7%	14.7%	15.9%	15.6%	15.4%
SG&A / net rental income	13.8%	14.2%	15.9%	15.6%	15.4%
<b>Profitability ratios</b>					
ROE	-0.2%	-6.6%	6.2%	6.8%	7.4%
ROA	-0.1%	-2.0%	2.0%	1.7%	1.9%
FFO I / real estate volume	2.1%	0.4%	0.2%	1.8%	3.9%
Revaluation result / investment properties	-2.7%	-4.8%	0.1%	0.2%	0.5%
<b>Balance sheet and debt ratios</b>					
Equity ratio	20.9%	23.3%	25.2%	25.9%	26.7%
Liquidity ratio	3.7%	5.0%	6.4%	7.2%	7.9%
LTV	59.1%	61.3%	61.3%	61.3%	61.3%
Net debt LTV	55.3%	55.7%	54.1%	53.2%	52.2%
Properties to total assets	95.2%	90.2%	88.6%	87.9%	87.2%
REIT compliance	O.K.	O.K.	O.K.	O.K.	O.K.
REIT equity ratio	42.0%	46.9%	50.8%	51.7%	52.7%
REIT compliance	Failed	O.K.	O.K.	O.K.	O.K.
Interest coverage	1.9	1.5	2.9	3.3	3.4
Cost of debt	-5.1%	-6.3%	-2.8%	-2.7%	-2.7%
<b>Key figures per share (EUR)</b>					
NAV per share	8.62	8.65	8.95	9.33	9.75
EPRA NAV per share	9.58	8.86	9.20	9.57	9.99
FFO I per share	0.63	0.69	0.55	0.62	0.70
FCF per share	1.19	3.27	2.08	0.47	0.45
EPS	-0.02	-0.56	0.55	0.62	0.70
Dividend per share	0.10	0.25	0.25	0.28	0.32
Payout ratio based on FFO I	15.7%	36.4%	45.0%	45.0%	45.0%
<b>Valuation multiples and yields</b>					
P/NAV	0.53	0.58	0.57	0.54	0.52
P/EPRA NAV	0.48	0.57	0.55	0.53	0.51
FFO I yield	14.0%	13.6%	10.8%	12.3%	13.9%
Dividend yield	2.2%	5.0%	4.9%	5.5%	6.2%
P/E	neg.	neg.	9.2	8.1	7.2
<b>Portfolio metrics</b>					
Number of units	65	49	47	47	47
Portfolio value in EURm	463.00	311.38	312.55	314.02	316.38
Vacancy rate	95.1%	93.3%	90.0%	93.0%	95.0%
Rentable space in sqm	416,000	293,387	272,922	272,922	272,922
Average sqm per unit	6,400	5,987	5,807	5,807	5,807
Value per sqm in EUR	1,113	1,061	1,145	1,151	1,159
Rent EUR/sqm per month	6.31	8.42	7.71	7.97	8.14
Gross rental income yield	6.8%	9.5%	8.1%	8.3%	8.4%
Gross rental income multiple	14.7	10.5	12.4	12.0	11.9
NRI yield	5.5%	7.4%	5.7%	6.0%	6.2%
NRI multiple	18.3	13.5	17.4	16.6	16.2

Source: CBS Research AG, Fair Value REIT-AG



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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
06 May 2014	BUY	EUR 5.06	EUR 7.60
04 April 2014	BUY	EUR 5.25	EUR 7.00
11 November 2013	BUY	EUR 4.80	EUR 7.00
12 August 2013	BUY	EUR 4.18	EUR 7.00
15 May 2013	BUY	EUR 4.50	EUR 7.00

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