

Recommendation:

**BUY** (BUY)

Risk:

**MEDIUM** (MEDIUM)

Price Target:

**EUR 7.60** (7.60)

09 May 2014

## 1Q14 figures in line with expectations

### Looking forward to AGM on 27 May

- Yesterday, Fair Value REIT reported 1Q14 figures which were in the range of our expectations. Due to the adoption of IFRS 10 the 1Q13 figures have been adjusted accordingly in order to make them comparable with 1Q14 figures.
- Rental income in 1Q14 declined to EUR 6.2m (PY EUR 7.2m, -14.6% yoy) mainly due to property sales. Net rental result decreased less strongly to EUR 4.8m (PY EUR 5.3m, -10.2% yoy) because of lower property related expenses of EUR -2.7m (PY EUR -3.5m).
- The financial result improved to EUR -1.4m (PY EUR -1.7m, +13.9% yoy) due to repayment-related and interest rate-related savings. Net income decreased to EUR 1.2m (PY EUR 1.4m, -13.4%) as the cost savings could not completely offset the lower rental income.
- However, Fair Value REIT was able to increase the cash-based FFO to EUR 1.3m (PY EUR 1.2m, +9.6%) which indicates the improved cost structure better than the net income that is also influenced by non-cash items.
- Group occupancy rate decreased to 89.6% (93.3% as at 31 Dec. 2013) due to temporary vacancies but already signed new and follow up leases will push the occupancy rate above 90% in the coming months. The management confirms its FFO and dividend guidance for FY14E of EUR 5.1m and EUR 0.25 per share respectively.
- The REIT equity ratio went up to 50.4% (46.9% as at 31 Dec. 2013) and is now significantly above the REIT threshold of 45%.
- We look forward to the AGM on 27 May where the shareholders will decide about capital structure topics which will significantly improve the financial flexibility and are essential preconditions for a growth strategy. In our model, we undertake some minor adjustments, keeping the FFO estimates unchanged and slightly increasing the EPS estimates. We confirm our BUY recommendation with an unchanged PT to EUR 7.60.

#### 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	15.7	17.0	19.4
Net result	-0.2	-5.2	5.3	6.1	7.3
EPS	-0.02	-0.56	0.56	0.65	0.78
DPS	0.10	0.25	0.25	0.28	0.32
FFO I per share	0.69	0.69	0.55	0.62	0.70
Dividend yield	2.2%	5.0%	4.6%	5.2%	5.9%
FFO I yield	15.5%	13.6%	10.2%	11.6%	13.1%
ROE	-0.2%	-6.6%	6.4%	7.1%	8.1%
Net debt LTV	55.3%	55.7%	54.1%	53.0%	51.8%
P/NAV	0.53	0.58	0.60	0.57	0.54
P/EPRA NAV	0.48	0.57	0.58	0.56	0.53
P/E	neg.	neg.	9.5	8.2	6.9

\*includes disposals

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	-	26.1	-	26.7
EBIT	15.7	15.4	17.0	16.5	19.4	17.9
EPS	0.56	0.55	0.65	0.62	0.78	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>5.35</b>
Shares outstanding (m):	9.3
Market capitalisation (EUR m):	49.9
Enterprise value (EUR m):	203.5
Ø daily trading volume (3 m., no. of shares):	7,264

#### Performance data:

High 52 weeks (EUR):	5.89
Low 52 weeks (EUR):	4.09
Absolute performance (12 months):	21.6%
Relative performance vs. CDAX:	
1 month	1.8%
3 months	9.5%
6 months	6.7%
12 months	4.1%

#### Shareholders:

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

#### Financial calendar:

AGM	27 May 2014
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## Appendix

### Fair Value REIT-AG

#### Profit and loss account

	IFRS	EURm	1Q 2013 adj	1Q 2014	change	% change
<b>Rental income</b>			<b>7.2</b>	<b>6.2</b>	<b>-1.1</b>	<b>-14.6%</b>
Income and expenses related to rental income			-1.9	-1.4	0.5	26.8%
<b>Net rental result</b>			<b>5.3</b>	<b>4.8</b>	<b>-0.5</b>	<b>-10.2%</b>
Result from sale of investment properties			0.0	-0.1	-0.1	n.m.
<b>Total earnings</b>			<b>5.3</b>	<b>4.7</b>	<b>-0.6</b>	<b>-12.1%</b>
SG&A			-0.8	-0.7	0.1	16.3%
Total other operating income and expenses			0.2	0.0	-0.1	-75.0%
<b>EBITDA</b>			<b>4.7</b>	<b>4.0</b>	<b>-0.6</b>	<b>-13.5%</b>
in % of total revenues			87.8%	86.3%		
Valuation result			-0.1	0.0	0.1	100.0%
in % of total revenues			-1.2%	0.0%		
<b>EBIT</b>			<b>4.6</b>	<b>4.0</b>	<b>-0.6</b>	<b>-12.4%</b>
in % of total revenues			86.6%	86.3%		
Financial result			-1.7	-1.4	0.2	13.9%
<b>Net income including minorities</b>			<b>2.9</b>	<b>2.6</b>	<b>-0.3</b>	<b>-11.5%</b>
Minority interests			-1.6	-1.4	0.2	9.8%
<b>Net income attributable to shareholders</b>			<b>1.4</b>	<b>1.2</b>	<b>-0.2</b>	<b>-13.4%</b>
in % of total revenues			25.4%	25.0%		
Shares outstanding (in millions)			9.3	9.3	0.0	0.0%
<b>Earnings per share (EUR)</b>			<b>0.14</b>	<b>0.13</b>	<b>-0.02</b>	<b>-13.4%</b>
<b>EPRA net earnings / FFO</b>			<b>1.2</b>	<b>1.3</b>	<b>0.1</b>	<b>9.6%</b>
<b>EPRA net earnings / FFO per share (EUR)</b>			<b>0.13</b>	<b>0.14</b>	<b>0.01</b>	<b>9.6%</b>

Source: CBS Research AG, Fair Value REIT-AG

## 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	-7.0	-6.8	-5.7
<b>Net rental result</b>			<b>25.3</b>	<b>23.1</b>	<b>18.2</b>	<b>19.3</b>	<b>20.9</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>18.2</b>	<b>19.3</b>	<b>20.9</b>
SG&A			-3.5	-3.3	-2.9	-2.9	-3.0
Total other operating income and expenses			-0.2	0.0	0.0	0.0	0.0
<b>EBITDA</b>			<b>21.7</b>	<b>19.0</b>	<b>15.4</b>	<b>16.5</b>	<b>17.9</b>
in % of total earnings			85.5%	85.2%	84.3%	85.1%	85.7%
Valuation result			-9.7	-14.0	0.3	0.6	1.5
<b>EBIT</b>			<b>11.9</b>	<b>5.0</b>	<b>15.7</b>	<b>17.0</b>	<b>19.4</b>
in % of total earnings			47.1%	22.4%	85.9%	88.1%	92.8%
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>10.5</b>	<b>12.2</b>	<b>14.5</b>
Minority interests			0.0	0.0	-5.3	-6.1	-7.3
<b>Net income attributable to shareholders</b>			<b>-0.2</b>	<b>-5.2</b>	<b>5.3</b>	<b>6.1</b>	<b>7.3</b>
in % of total earnings			-0.7%	-23.4%	28.8%	31.6%	34.8%
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>0.56</b>	<b>0.65</b>	<b>0.78</b>
<b>EPRA net earnings / FFO</b>			<b>6.6</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>0.69</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%	88.6%	87.8%	87.0%
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>37.6</b>	<b>40.9</b>	<b>44.6</b>
as % of total assets			4.8%	15.4%	11.4%	12.2%	13.0%
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	21.2	24.5	28.2
<b>Total Assets</b>			<b>385.1</b>	<b>345.9</b>	<b>331.2</b>	<b>335.9</b>	<b>342.0</b>
<b>Total equity and liabilities</b>							
<b>Total equity</b>			<b>80.4</b>	<b>80.7</b>	<b>83.6</b>	<b>87.4</b>	<b>92.1</b>
as % of total equity and liabilities			20.9%	23.3%	25.2%	26.0%	26.9%
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	-9.2	-5.4	-0.7
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%	67.8%	66.9%
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%	6.1%
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>331.2</b>	<b>335.9</b>	<b>342.0</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	5.3	6.1	7.3
Cash flow from operating activities			7.8	1.4	0.7	5.5	5.8
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	3.9	3.2	3.7
Cash and cash equivalents at the start of the period			18.8	14.2	17.4	21.2	24.5
Cash and cash equivalents at the end of the period			14.2	17.4	21.2	24.5	28.2

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%	72.2%	74.1%	78.4%
SG&A / total earnings	13.7%	14.7%	15.7%	14.9%	14.3%
SG&A / net rental income	13.8%	14.2%	15.7%	14.9%	14.3%
<b>Profitability ratios</b>					
ROE	-0.2%	-6.6%	6.4%	7.1%	8.1%
ROA	-0.1%	-2.0%	1.6%	1.8%	2.1%
FFO I before minorities / real estate volume	3.4%	4.0%	3.5%	3.9%	4.4%
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%	26.0%	26.9%
Liquidity ratio	3.7%	5.0%	6.4%	7.3%	8.3%
LTV	59.1%	61.3%	61.3%	61.3%	61.3%
Net debt LTV	55.3%	55.7%	54.1%	53.0%	51.8%
Properties to total assets	95.2%	90.2%	88.6%	87.8%	86.9%
REIT compliance	O.K.	O.K.	O.K.	O.K.	O.K.
REIT equity ratio	42.0%	46.9%	50.9%	51.9%	53.0%
REIT compliance	Failed	O.K.	O.K.	O.K.	O.K.
Interest coverage	1.9	1.5	3.0	3.4	3.7
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	8.96	9.37	9.87
EPRA NAV per share	9.58	8.86	9.21	9.62	10.12
FFO I per share	0.69	0.69	0.55	0.62	0.70
FCF per share	1.19	3.27	2.10	0.50	0.53
EPS	-0.02	-0.56	0.56	0.65	0.78
Dividend per share	0.10	0.25	0.25	0.28	0.32
Payout ratio based on FFO I	14.2%	36.4%	45.0%	45.0%	45.0%
<b>Valuation multiples and yields</b>					
P/NAV	0.53	0.58	0.60	0.57	0.54
P/EPRA NAV	0.48	0.57	0.58	0.56	0.53
FFO I yield	15.5%	13.6%	10.2%	11.6%	13.1%
Dividend yield	2.2%	5.0%	4.6%	5.2%	5.9%
P/E	neg.	neg.	9.5	8.2	6.9
<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%	5.8%	6.2%	6.6%
NRI multiple	18.3	13.5	17.1	16.2	15.1

Source: CBS Research AG, Fair Value REIT-AG

## Research



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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
09 May 2014	BUY	EUR 5.35	EUR 7.60
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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