

Recommendation:

BUY (BUY)

Risk:

MEDIUM (MEDIUM)

Price Target:

EUR 8.00 (7.60)

18 December 2014

Rolf Elgeti invests in Fair Value REIT

Implementation of growth strategy should come

- With the exit of the major shareholder H.F.S. the final breakthrough has been reached since we published our comprehensive update on Fair Value REIT (FVI) on 6 May 2014 ('Growth strategy to be implemented – buying opportunity for strategic investors'). The long-awaited growth strategy can finally be implemented.
- H.F.S. sold almost its entire stake (32.4%) in FVI to three SPV's controlled by Obotritia Capital KGaA i.G, now holding 29.98% in total. Obotritia is a company which was recently founded by Rolf Elgeti, the former CEO and actual Chairman of the Supervisory Board of TAG Immobilien.
- We think that now the way is free 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.
- FVI's strategy for its intended expansion will focus on value creation by purchasing minorities, on retail parks with food retail as anchor tenants and on office properties with upside potential (see page 2).
- In our opinion, the fact that Rolf Elgeti has become a major shareholder bears the potential to bring FVI in a completely new dimension as he has already done with TAG. The other two German REITs alstria and Hamborner are trading at discounts to EPRA NAV of around 2-6% while FVI is currently trading at a much higher discount of around 32% to 9M14 EPRA NAV. A narrowing of this gap should be quite probable.
- Additionally, a growing REIT in Germany is an interesting investment story as international investors are familiar with REITs; appreciating the high transparency and payout ratio of REITs as well as the absent taxation on company level.
- We confirm our BUY recommendation and lift our PT to EUR 8.00 (NAV and peer group model, reflecting a target P/E of 14.3 for FY14E and a discount of 13% to FY14E target EPRA NAV). In light of a possible growth scenario, we think the stock is too cheap with a current EPRA NAV discount of around 32% and a dividend yield of > 5.0% for FY16E.

Key data

FY 12/31, EUR m	2012	2013	2014E	2015E	2016E
Net rental income	25.3	23.1	18.2	19.3	20.9
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%	4.0%	4.5%	5.1%
FFO I yield	15.5%	13.6%	8.9%	10.1%	11.3%
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	0.69	0.66	0.63
P/EPRA NAV	0.48	0.57	0.67	0.64	0.61
P/E	neg.	neg.	11.0	9.5	8.0

Source: Fair Value REIT-AG, CBS Research AG



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

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
NRI	-	18.2	-	19.3	-	20.9
EBIT	-	15.7	-	17.0	-	19.4
FFO/sh	-	0.55	-	0.62	-	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):	6.19
Shares outstanding (m):	9.3
Market capitalisation (EUR m):	57.7
Enterprise value (EUR m):	211.3
Ø daily trading volume (3 m., no. of shares):	23,214

Performance data:

High 52 weeks (EUR):	6.25
Low 52 weeks (EUR):	4.70
Absolute performance (12 months):	21.2%
Relative performance vs. CDAX:	
1 month	17.1%
3 months	17.4%
6 months	13.6%
12 months	14.1%

Shareholders:

Obotritia Capital	30.0%
IFB	5.4%
Others and free float	64.6%

Financial calendar:

FY 2014 figures	26 March 2015
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Strategy of FVI

In the past, the continuation of focussing the portfolio on retail properties had a very strong weighting in the strategy. This weighting has been lowered to a certain extent and is now more equal to the weighting of buying office properties with upside potential. However, the focussing of the portfolio by reducing properties of other types of uses (e.g. logistics) will continue.

Slight adjustment in strategy regarding weighting of retail and office properties

The strongest weightings in the strategy lie on:

Strong focus on value creation

- 1) Value creation in general (where also the reduction of minorities plays an important role)
- 2) Growth through acquisitions (larger companies with larger portfolios are more attractive for shareholders)
- 3) Generating a reliable cash flow with an adequate yield in order to pay an attractive dividend. In that regard FVI communicated, in the past, a target payout ratio of 50% based on FFO (FY 2013: 36.4%, guidance for FY 2014: 45%)

The reduction of minorities, which plays an important role in value creation, encompasses:

- 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 (this can be an effective enhancement of value because purchases can sometimes be done with discounts of up to 50% to NAV)
- Reduction of administrative costs by gradually liquidating SPVs

Appendix

Fair Value REIT-AG

Profit and loss account

	IFRS	EURm	2012	2013	2014E	2015E	2016E
Rental income			31.5	29.6	25.3	26.1	26.7
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
Net rental result			25.3	23.1	18.2	19.3	20.9
Result from sale of investment properties			0.1	-0.7	0.0	0.0	0.0
Total earnings			25.3	22.4	18.2	19.3	20.9
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
EBITDA			21.7	19.0	15.4	16.5	17.9
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
EBIT			11.9	5.0	15.7	17.0	19.4
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
Net income including minorities			-0.2	-5.2	10.5	12.2	14.5
Minority interests			0.0	0.0	-5.3	-6.1	-7.3
Net income attributable to shareholders			-0.2	-5.2	5.3	6.1	7.3
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
Earnings per share (EUR)			-0.02	-0.56	0.56	0.65	0.78
EPRA net earnings / FFO			6.6	6.4	5.1	5.8	6.5
EPRA net earnings / FFO per share			0.69	0.69	0.55	0.62	0.70
Dividend per share (EUR)			0.10	0.25	0.25	0.28	0.32

Source: CBS Research AG, Fair Value REIT-AG

Fair Value REIT-AG

Balance Sheet

	IFRS	EURm	2012	2013	2014E	2015E	2016E
Assets							
Non-current assets			366.7	292.5	293.6	295.0	297.4
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
Current assets			18.4	53.4	37.6	40.9	44.6
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
Total Assets			385.1	345.9	331.2	335.9	342.0
Total equity and liabilities							
Total equity			80.4	80.7	83.6	87.4	92.1
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
Non-current liabilities			243.6	194.3	226.9	227.7	229.0
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
Current liabilities			61.1	70.9	20.8	20.8	21.0
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
Total equity and liabilities			385.1	345.9	331.2	335.9	342.0

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
Margins					
Net rental income (NRI) margin	80.3%	77.9%	76.6%	78.6%	82.4%
SG&A / total earnings	13.7%	14.7%	15.4%	15.0%	14.4%
SG&A / net rental income	13.8%	14.2%	15.4%	15.0%	14.4%
Profitability ratios					
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%
Balance sheet and debt ratios					
Equity ratio	20.9%	23.3%	25.2%	26.0%	26.9%
Liquidity ratio	3.7%	5.0%	6.4%	7.3%	8.2%
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%
Key figures per share (EUR)					
NAV per share	8.62	8.65	8.97	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%	45.1%
Valuation multiples and yields					
P/NAV	0.53	0.58	0.69	0.66	0.63
P/EPRA NAV	0.48	0.57	0.67	0.64	0.61
FFO I yield	15.5%	13.6%	8.9%	10.1%	11.3%
Dividend yield	2.2%	5.0%	4.0%	4.5%	5.1%
EV/Sales	7.8	7.5	8.9	8.6	8.3
EV/EBIT	20.5	44.1	13.4	12.4	10.9
P/S	1.3	1.6	2.4	2.3	2.3
P/E	neg.	neg.	11.0	9.5	8.0
Portfolio metrics					
Number of units	65	49	47	47	47
Portfolio value in EURm	463.00	311.38	312.55	314.02	316.38
Vacancy rate	4.9%	6.7%	10.0%	7.0%	5.0%
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	7.27	7.51	7.75
Gross rental income yield	6.8%	9.5%	7.6%	7.8%	8.0%
Gross rental income multiple	14.7	10.5	13.1	12.8	12.5
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

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BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

This rating system is only a guideline. Therefore, deviations from this system may apply.

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

Date	Recommendation	Price at change date	Price target
18 December 2014	BUY	EUR 6.19	EUR 8.00
10 November 2014	BUY	EUR 4.87	EUR 7.60
07 August 2014	BUY	EUR 4.95	EUR 7.60
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

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