

Recommendation:

BUY (BUY)

Risk:

MEDIUM (MEDIUM)

Price Target:

EUR 7.60 (7.60)

10 November 2014

Stable 3Q14, dividend guidance confirmed FFO guidance confirmed with slightly softer tone

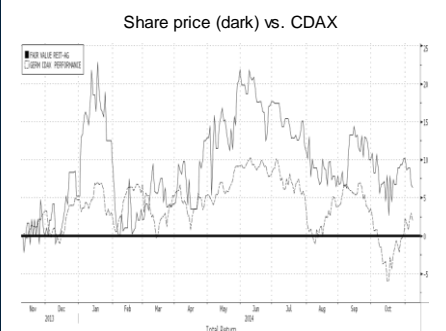
- End of last week, Fair Value REIT reported 3Q14 figures which were fully in line with our estimates. Due to the adoption of IFRS 10 the 3Q13 figures have been adjusted accordingly in order to make them comparable with 3Q14 figures.
- Rental income in 3Q14 declined to EUR 5.9m (PY EUR 7.4m, -20.2% yoy) mainly due to property sales. Net rental income decreased slightly less to EUR 4.5m (PY EUR 5.5m, -19.1% yoy) because of lower property related expenses of EUR -1.4m (PY EUR -1.9m) in relation to rental income. As a consequence the NRI margin rose from 74.0% to 75.8%.
- The financial result improved to EUR -1.2m (PY EUR -1.3m, +7.7% yoy) due to repayment-related and interest rate-related savings. Net income dropped to EUR 1.3m (PY EUR 1.9m, -31.2% yoy) as the cost savings could not offset the lower rental income.
- In 3Q14, the FFO declined to EUR 1.1m (PY EUR 1.2m, -8.3% yoy). The management confirmed its FY14E FFO guidance of EUR 5.1m or EUR 0.55 per share, albeit softening the tone by saying that the company will likely only just reach the FFO guidance.
- The reason for the softening tone of the company is that the management anticipates an increase in maintenance and rental costs in 4Q14. We stick to our EUR 5.1m FFO estimate for FY14E.
- The dividend guidance of EUR 0.25 per share for FY14E was explicitly confirmed.
- Group occupancy rate rose to 90.1% in 3Q14 from 89.4% in 2Q14 due to the full rental of a logistics property in Cologne. The re-letting of a property in Celle, effective 1 Dec 2014, will drive the occupancy rate to almost 93%.
- The company showed a stable business in 3Q14. We confirm our BUY recommendation with an unchanged PT of EUR 7.60 (NAV and peer group model, reflecting a target P/E of 13.6 for FY14E).

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%	5.1%	5.8%	6.5%
FFO I yield	15.5%	13.6%	11.3%	12.8%	14.4%
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	0.54	0.52	0.49
P/EPRA NAV	0.48	0.57	0.53	0.51	0.48
P/E	neg.	neg.	8.6	7.4	6.3

*includes disposals

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):	4.87
Shares outstanding (m):	9.3
Market capitalisation (EUR m):	45.4
Enterprise value (EUR m):	199.0
Ø daily trading volume (3 m., no. of shares):	14,740

Performance data:

High 52 weeks (EUR):	5.89
Low 52 weeks (EUR):	4.62
Absolute performance (12 months):	1.7%
Relative performance vs. CDAX:	
1 month	-4.6%
3 months	-5.0%
6 months	-10.0%
12 months	-0.3%

Shareholders:

H.F.S.	30.5%
IFB	5.4%
Others and free float	64.1%

Financial calendar:

FY 2014 figures	26 March 2015
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Appendix

Fair Value REIT-AG

Profit and loss account

	IFRS	EURm	3Q 2013 adj	3Q 2014	change	% change	9M 2013 adj	9M 2014	change	% change
Rental income			7.4	5.9	-1.5	-20.2%	22.1	18.0	-4.2	-18.9%
Income and expenses related to rental income			-1.9	-1.4	0.4	23.5%	-5.2	-4.2	1.0	19.7%
Net rental income			5.5	4.5	-1.1	-19.1%	17.0	13.8	-3.2	-18.6%
Result from sale of investment properties			0.0	0.0	0.0	n.m.	0.3	-0.3	-0.6	-193.0%
Total earnings			5.5	4.5	-1.0	-18.4%	17.3	13.5	-3.8	-21.9%
SG&A			-0.8	-0.7	0.2	18.3%	-2.6	-2.1	0.5	18.7%
Total other operating income and expenses			0.0	0.2	0.3	697.3%	0.3	0.4	0.1	41.1%
EBITDA			4.6	4.0	-0.6	-13.1%	15.0	11.8	-3.2	-21.4%
in % of total revenues			84.1%	89.7%			86.6%	87.2%		
Valuation result			0.0	0.1	0.1	423.1%	-0.2	0.0	0.2	100.0%
in % of total revenues			-0.5%	1.9%			-1.1%	0.0%		
EBIT			4.6	4.1	-0.5	-10.8%	14.8	11.8	-3.0	-20.4%
in % of total revenues			83.7%	91.5%			85.5%	87.2%		
Financial result			-1.3	-1.2	0.1	7.7%	-4.4	-3.9	0.5	11.1%
Net income including minorities			3.4	2.9	-0.4	-12.9%	10.3	7.8	-2.5	-24.2%
Minority interests			-1.4	-1.6	-0.2	-12.1%	-5.0	-4.4	0.6	12.9%
Net income attributable to shareholders			1.9	1.3	-0.6	-31.2%	5.3	3.4	-1.8	-34.9%
in % of total revenues			35.1%	29.6%			30.6%	25.5%		
Shares outstanding (in millions)			9.3	9.3	0.0	0.0%	9.3	9.3	0.0	0.0%
Earnings per share (EUR)			0.21	0.14	-0.06	-31.2%	0.57	0.37	-0.20	-34.9%
EPRA net earnings / FFO			1.2	1.1	-0.1	-8.3%	4.0	3.7	-0.3	-8.0%
EPRA net earnings / FFO per share (EUR)			0.26	0.12	-0.14	-8.3%	0.43	0.39	-0.03	-8.0%

Source: CBS Research AG, Fair Value REIT-AG

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	0.54	0.52	0.49
P/EPRA NAV	0.48	0.57	0.53	0.51	0.48
FFO I yield	15.5%	13.6%	11.3%	12.8%	14.4%
Dividend yield	2.2%	5.0%	5.1%	5.8%	6.5%
EV/Sales	7.8	7.5	8.4	8.1	7.8
EV/EBIT	20.5	44.1	12.7	11.7	10.3
P/S	1.3	1.6	1.9	1.8	1.8
P/E	neg.	neg.	8.6	7.4	6.3
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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Recommendation System:

CBSR uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months:

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
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
11 November 2013	BUY	EUR 4.80	EUR 7.00

Risk-scaling System:

CBSR uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 12 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark

MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

HIGH: The volatility is expected to be higher than the volatility of the benchmark

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