

Fair Value REIT-AG

Germany / Real Estate
 Primary exchange: Frankfurt
 Bloomberg: FVI GR
 ISIN: DE000A0MW975

Portfolio Update

RATING	BUY
PRICE TARGET	€8.20
Return Potential	64.0%
Risk Rating	Medium

FAIR VALUE REIT FORGES AHEAD WITH PORTFOLIO OPTIMISATION

Fair Value REIT-AG ("FVR") announced on 12 February that it had sold two additional real estate properties which were no longer part of the group's core portfolio. This takes the number of properties sold since the middle of December to five. Given the pace of FVR's portfolio optimisation, we expect the company to adjust its guidance for the coming fiscal years upon publication of its FY 2013 results in April. We expect cost reductions to result in higher profits in the future despite lower revenues. Our combined DCF/NAV model yields an unchanged price target of EUR8.20. At the current share price level FVR is yielding roughly 5%. The firm's share still trades at a significant discount to the balance sheet NAV. We thus reiterate our Buy recommendation.

February 2014: Proceeds of EUR18.1m On 12 February FVR announced that it forged ahead with its portfolio refocusing. The company sold two non-core properties in the district of Segeberg and in Hanover. In the district of Segeberg (in the small town Henstedt-Ulzburg) a directly held bank building was sold for EUR1.1m, which corresponds to the market value at the end of FY 2012. The second property, a hotel with office and commercial space in Hanover, was held by one of group's subsidiaries ("BBV 06"). Since significantly higher maintenance costs can be expected in the future, the selling price of EUR17.0m was around 13% lower than the market value as of the end of December 2012 (EUR19.6m). FVR will use the proceeds to repay BBV 06's (FVR stake of around 60%) financial liabilities. Transfer of ownership, risks and benefits took place following the payment of purchase prices on 31 January 2014.

January 2014: Cash inflow of EUR3.4m At the end of FY 2013 FVR sold two properties in Schleswig Holstein and Bavaria. In Kaltenkirchen (district of Segeberg in Schleswig Holstein) a directly held bank building was sold for EUR1.95m (market value as of the end of December 2012: EUR1.85m).

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2010	2011	2012	2013E	2014E	2015E
Revenue (€m)	14.33	13.33	13.57	12.50	6.94	7.12
Y-o-y growth	n.a.	-7.0%	1.8%	-7.9%	-44.5%	2.5%
EBIT (€m)	2.87	6.70	5.86	5.29	3.46	4.20
EBIT margin	20.0%	50.2%	43.1%	42.3%	49.8%	59.0%
Net income (€m)	2.23	4.55	1.45	6.36	5.31	6.25
EPS (diluted) (€)	0.24	0.49	0.15	0.68	0.57	0.67
DPS (€)	0.10	0.08	0.10	0.24	0.24	0.26
FCF (€m)	5.13	3.53	3.27	5.50	8.13	9.44
Net gearing	38.2%	40.3%	41.9%	43.7%	54.1%	56.4%
Liquid assets (€m)	11.98	7.73	5.86	5.32	6.04	7.24

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavorable macroeconomic development, and departure of key personnel.

COMPANY PROFILE

Fair Value REIT-AG is a real estate investment trust. The firm invests directly and indirectly in real estate. The company focuses on long-term leased office and retail properties in attractive "B" locations and regional centres.

MARKET DATA

As of 18 Feb 2014

Closing Price	€ 5.00
Shares outstanding	9.33m
Market Capitalisation	€ 46.63m
52-week Range	€ 4.01 / 5.84
Avg. Volume (12 Months)	5,872

Multiples	2012	2013E	2014E
P/E	32.3	7.3	8.8
EV/Sales	8.9	9.6	17.3
EV/EBIT	20.5	22.7	34.8
Div. Yield	2.0%	4.8%	4.8%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2013

Liquid Assets	€ 6.25m
Current Assets	€ 11.01m
Intangible Assets	€ 0.12m
Total Assets	€ 187.15m
Current Liabilities	€ 15.02m
Shareholders' Equity	€ 84.02m

SHAREHOLDERS

H.F.S.	30.5%
IC	18.1%
IFB	5.4%
Other	8.6%
Free Float	37.4%



The second property in Erlangen (Bavaria), which was indirectly held by FVR (stake: 41%), was sold for EUR1.49m (market value at the end of 2012: EUR1.47m). The associated company ("BBV 02") selling the property will be dissolved after completion of the transaction. FVR will use the proceeds for (re-)investments such as increasing its stakes in the existing portfolio.

December 2013: EUR5.5m for commercial property in Neuss In the middle of December one of FVR's subsidiaries ("IC 03" - FVR stake: roughly 72%) sold a commercial property in Neuss for EUR5.5m. Given the occupancy rate of around 91% and the remaining term of the lease agreements of around 2 years, the selling price was roughly 8% lower than the market value of the property as of the end of FY 2012 (EUR6.0m). IC 03 will be dissolved after completion of the transaction, which is another step forward regarding reduction of group complexity.

Adjustments to our forecasts We have adjusted our forecasts for FY 2014E and subsequent years to the latest news flow. In our view, the current fiscal year will be a year of transition for the company. Given the firm's pace of portfolio optimisation (divestment of non-core properties) and the reduction of complexity (subsidiaries are dissolved, investments are sold), FY 2014E's profitability will be distorted by transaction-related exceptional items. Top-line results will also be lower than previously anticipated. In FY 2015E and subsequent years, cost containment and reorganisation efforts of the current and past fiscal years (lower interest payments on financial debt, reduction of financial debt, G&A cost optimisation, re-investments in profitable subsidiaries and associated companies) should begin to bear fruit. Changes to our forecasts are shown in table 1.

Confirmation of price target and recommendation Our updated DCF/NAV model yields an unchanged price target of EUR8.20. Despite the recent increase in the share price, FVR's shares still trade with a significant discount to the balance sheet NAV of EUR9.01 per share (as of the end of 9M 2013). In our view, the significant discount is not justified given the confirmation of FVR's portfolio value demonstrated through the firm's divestments in the past fiscal year (average IFRS selling profit before costs of 1.3% above the market value as of the end of FY 2012). In addition, at the current share price level, FVR's shares are yielding around 5%. We reiterate our Buy recommendation.

Table 1: Changes to forecasts

in EURm	2013E			2014E			2015E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Total sales	12.50	12.50	0.0%	9.96	6.94	-30.3%	10.08	7.12	-29.4%
EBIT	5.29	5.29	0.0%	4.71	3.46	-26.6%	4.82	4.20	-12.9%
margin	42.3%	42.3%	-	47.3%	49.8%	-	47.8%	59.0%	-
Net income	6.36	6.36	0.0%	5.59	5.31	-5.0%	6.17	6.25	1.4%
margin	50.9%	50.9%	-	56.1%	76.5%	-	61.2%	87.9%	-
EPS (in EUR, dil.)	0.68	0.68	0.0%	0.60	0.57	-5.0%	0.66	0.67	1.4%

Source: First Berlin Equity Research

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	11 May 2012	€4.23	Buy	€7.80
2...5	↓	↓	↓	↓
6	15 May 2013	€4.50	Buy	€7.70
7	19 August 2013	€4.21	Buy	€7.70
8	18 November 2013	€4.75	Buy	€8.20
9	Today	€5.00	Buy	€8.20

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance

BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

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