

Fair Value REIT-AG

BUY (BUY) | Target 10.00 EUR (10.00 EUR)

 Price (last closing price) : **7.34 EUR** | Upside : 36 %

| | | |
|-------------|--------------|--------------|
| Est. change | 2015e | 2016e |
| FFO I PS | -5.8% | +25% |

Preview H1 2015e: strong net profit, moderate FFO, value-accretive strategy

Friday, 24 July 2015


| Capital | |
|-------------------------|-------------|
| FVI GY FVI GDE | |
| Market Cap (EURm) | 103 |
| Enterprise value (EURm) | 244 |
| Extrema 12 months | 8.73 - 4.57 |
| Free Float (%) | 69.2% |

| Performance (%) | 1m | 3m | 12m |
|---------------------|-------|------|------|
| Absolute | -6.2 | -9.8 | 47.6 |
| Perf. rel. "sector" | -11.6 | -6.1 | 9.6 |
| Perf. rel. CDAX | -7.1 | -9.2 | 23.2 |

| P & L | 12/15e | 12/16e | 12/17e |
|-------------------------|--------|--------|--------|
| NRI (EURm) | 18.6 | 19.8 | 21.8 |
| EBIT (EURm) | 27.1 | 20.3 | 22.3 |
| Attr. net profit (EURm) | 16.6 | 11.7 | 13.4 |
| EPS (EUR) | 1.34 | 0.83 | 0.95 |
| FFO I ps (EUR) | 0.49 | 0.70 | 0.81 |
| Dividend (EUR) | 0.25 | 0.35 | 0.41 |
| P/E (x) | 5.5 | 8.9 | 7.8 |
| P/NAV (x) | 0.81 | 0.76 | 0.71 |
| P/EPRA NAV (x) | 0.79 | 0.74 | 0.70 |
| FFO I yield (%) | 5.8 | 9.4 | 11.0 |
| Dividend yield (%) | 3.3 | 4.7 | 5.5 |
| ROE (%) | 16.4 | 8.8 | 9.4 |
| Net LTV (%) | 51.3 | 52.9 | 53.4 |

| | | | |
|------------------|------|------|-------|
| NAVPS (EUR) | 9.19 | 9.78 | 10.38 |
| EPRA NAVPS (EUR) | 9.35 | 9.93 | 10.53 |

| Next Events | |
|--------------|---------------|
| 2Q15 results | 6 August 2015 |

FVI executing communicated growth strategy after successful rights issue

Its successful capital increase in early May with a volume of ~€ 37m enables Fair Value REIT (FVI) to execute its growth strategy as planned, focusing on growth and value creation via property buy-outs, minorities buy-outs, investing in additional closed-end funds and directly investing in commercial properties. Recent newsflow (additional closed end fund BBV08 acquisition, four property buy-outs) confirms that FVI has already started investing the new funds in line with the new strategy. We expect FVI to replenish ~50% of the used raised funds with bank debt. This would keep its firepower at a minimum of € 20m.

Implementation of growth strategy to enhance NAV p/s and FFO p/s

We have updated our model for the capital increase, assuming that FVI uses the funds according to its value-accretive growth strategy. This results in strong increases in our estimates for FFO I p/s (except for 2015e) as follows: 2015e: € 0.49 (old: € 0.52), 2016e: € 0.70 (€ 0.56) and 2017e: € 0.81 (€ 0.58).

Why the decrease in our 2015e FFO I p/s estimate? FVI could report notable minority and property buy-outs in 2015, but they are more likely to come more towards the end of 2015. The further out in 2015, the smaller the cost reduction in 2015. In 2016, however, buyouts occurring in later 2015 would still reduce costs for all of 2016.

Our new model calculations also show an accretive impact on our EPRA NAV p/s estimates as follows: 2015e: € 9.35 (old: € 9.10); 2016e: € 9.93 (€ 9.48); and 2017e: € 10.53 (€ 9.86).

Our model update also incorporates the recent rent-increasing BBV08 acquisition and assumed reduction of minorities to € 33.6m by the end of 2015 from € 56.9m Q1 2015. We still think buying out all minorities by YE 2015 may be a bit too ambitious. Moreover, it is not certain in our view that all minorities will want to sell. Thus, we conservatively assume direct investments in 2016e as well as in 2017e and only further small reductions in minorities in 2016e and 2017e.

H1 2015 preview – forecasting strong net income and moderate FFO I

FVI will report H1 2015 figures on 6 August. We expect a very strong performance in net income before minorities and a moderate performance in terms of FFO. Due to the property disposals in 2014 we forecast rental income down slightly to € 11.4m (H1 14: € 12.1m). We also estimate a slight yoy decrease in FFO to € 2.2m (H1 14: € 2.5m) influenced by the lower rental income.

For net income before minorities we assume a very strong increase to € 6.0m (H1 14: € 2.1m) driven by lucky-buy gains of € 3.5m (incl. BBV08 with € 2.3m).

BUY confirmed, PT maintained at € 10.00

While the existing portfolio has its flaws and is targeted for improvement by end-2015, it is obvious that the real story is the buy-out program and the expansion by investing in additional closed-end funds as well as directly in commercial property. We have a BUY recommendation on FVI with a PT of € 10.00 (peer group and NAV valuation). Our PT reflects a 5% discount to 2017e target EPRA NAV.

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Focus topic: 20 July announcement of property buy-outs

Buy-out of four properties

On 20 July FVI announced that it had acquired four properties from subsidiaries, making it the direct owner of these properties. This transaction increased FVI's weighted proportionate interest in the properties from 54% to 100%. The acquired properties comprise of a hotel property in Dresden (acquired from subsidiary IC15), a manufacturing and office property in Langenfeld (IC13), an office and retail complex in Neubrandenburg (IC13) and an office property in Potsdam (IC13).

FVI acquired the hotel property in Dresden with effect on 30 June 2015, while the closings of the properties in Langenfeld, Neubrandenburg and Potsdam are scheduled for 31 July 2015. The properties are currently 94% occupied with a total lettable area of ~33,545 sqm. The contractual rents from the properties currently total € 2.4m per year with a WALT of 7.2 years.

Purchased below market value and at an attractive discount to NAV

The total purchase price of € 26.5m was 7% below the reported market value (as of 31 December 2014). Concerning the buy-outs from IC13 and the unwinding of this subsidiary, we can calculate that the purchase was transacted at a discount of approx. 26% to IC13's NAV.

Around 90% of the total acquisition costs will be financed from net proceeds of the aforementioned May 2015 rights issue.

The transaction generates a gross rental yield before acquisition costs of 9% p.a.; upon full occupancy the gross rental yield will increase to 10% p.a.

Implications of the 20 July buy-outs

Below we describe the implications of the buy-outs announced on 20 July, which are positive for all metrics except rental income. Rental income is not affected at all by the buy-outs. On our estimates, FVI has so far used up € 40.75m of the ~€ 42.5m funds it has recently raised (convertible bond issue for € 8.5m in January 2015 and a rights issue of around € 34m net proceeds in May 2015). However, we expect FVI to replenish ~50% of the used raised funds with bank debt. This would keep its firepower at a minimum of € 20m.

- **Rental income:** FVI's rental income will not be affected by this buy-out as these properties were already fully consolidated before FVI's acquired the remaining 46%.
- **NAV:** NAV should increase only marginally as a result of this transaction because FVI will have to pay acquisition costs like real estate transfer tax.
- **FFO:** FFO should increase through the elimination of administrative costs following the unwinding of IC13, which held three of the four bought-out properties (Langenfeld, Neubrandenburg and Potsdam). We estimate an SG&A cost savings of ~€ 80k p.a. However, FVI's cash flow will be burdened on a one-time basis by the acquisition costs.

Additionally, FFO should increase due to the reduction of interest expense through redemption or refinancing of expensive loans. The subsidiaries will use the buy-out proceeds to repay expensive bank loans. In this context it bears mentioning that IC13 is highly geared with an LTV of approx. 83%.

Profit and loss account

| | IFRS | EURm | 2012 | 2013 | 2014 | 2015e | 2016e | 2017e |
|--|------|------|--------------|--------------|--------------|-------------|-------------|-------------|
| Rental income | | | 31.5 | 29.6 | 23.9 | 24.1 | 25.8 | 28.4 |
| YoY growth | | | - | -5.9% | -19.3% | 0.6% | 7.4% | 9.9% |
| Income and expenses related to rental income | | | -6.2 | -6.5 | -6.3 | -5.5 | -6.1 | -6.6 |
| Net rental income | | | 25.3 | 23.1 | 17.6 | 18.6 | 19.8 | 21.8 |
| Result from sale of investment properties | | | 0.1 | -0.7 | -0.7 | 0.0 | 0.0 | 0.0 |
| Total earnings | | | 25.3 | 22.4 | 16.9 | 18.6 | 19.8 | 21.8 |
| SG&A | | | -3.5 | -3.3 | -2.9 | -2.7 | -2.0 | -2.1 |
| Total other operating income and expenses | | | -0.2 | 0.0 | -0.6 | 9.8 | 1.0 | 0.9 |
| EBITDA | | | 21.7 | 19.0 | 13.4 | 25.8 | 18.8 | 20.7 |
| Valuation result | | | -9.7 | -14.0 | -7.5 | 1.3 | 1.5 | 1.7 |
| EBIT | | | 11.9 | 5.0 | 5.9 | 27.1 | 20.3 | 22.3 |
| Financial result | | | -12.1 | -10.2 | -5.9 | -4.8 | -4.8 | -5.2 |
| Net income including minorities | | | -0.2 | -5.2 | 0.0 | 22.3 | 15.5 | 17.1 |
| Minority interests | | | 0.0 | 0.0 | 0.0 | -5.7 | -3.7 | -3.7 |
| Net income attributable to shareholders | | | -0.2 | -5.2 | 0.0 | 16.6 | 11.7 | 13.4 |
| Shares outstanding (in millions) | | | 9.3 | 9.3 | 9.3 | 12.4 | 14.1 | 14.1 |
| Earnings per share (EUR) | | | -0.02 | -0.56 | -0.01 | 1.34 | 0.83 | 0.95 |
| EPRA net earnings / FFO | | | 6.6 | 6.4 | 4.4 | 6.1 | 9.9 | 11.5 |
| EPRA net earnings / FFO per share (EUR) | | | 0.69 | 0.69 | 0.47 | 0.49 | 0.70 | 0.81 |
| Dividend per share (EUR) | | | 0.10 | 0.25 | 0.25 | 0.25 | 0.35 | 0.41 |

Source: Company Data, Oddo Seydler Bank AG

Balance Sheet

| | IFRS | EURm | 2012 | 2013 | 2014 | 2015e | 2016e | 2017e |
|---------------------------------------|------|------|--------------|--------------|--------------|--------------|--------------|--------------|
| Assets | | | | | | | | |
| Non-current assets | | | 366.7 | 292.5 | 277.9 | 317.3 | 338.7 | 363.3 |
| as % of total assets | | | 95.2% | 84.6% | 89.1% | 91.6% | 93.1% | 93.8% |
| Intangible assets | | | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| PP&E | | | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment properties | | | 355.9 | 292.3 | 267.7 | 308.2 | 330.6 | 363.3 |
| Equity accounted investments | | | 10.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other receivables and assets | | | 0.0 | 0.0 | 10.1 | 9.1 | 8.1 | 0.0 |
| Current assets | | | 18.4 | 33.8 | 20.7 | 29.1 | 24.9 | 24.1 |
| as % of total assets | | | 4.8% | 9.8% | 6.7% | 8.4% | 6.9% | 6.2% |
| Non-current assets available for sale | | | 0.0 | 19.6 | 13.2 | 0.0 | 0.0 | 0.0 |
| Accounts receivables | | | 4.2 | 16.4 | 6.2 | 6.2 | 6.2 | 6.2 |
| Cash and cash equivalents | | | 14.2 | 17.4 | 14.6 | 23.0 | 18.8 | 17.9 |
| Total Assets | | | 385.1 | 345.9 | 311.9 | 346.4 | 363.6 | 387.3 |
| Total equity and liabilities | | | | | | | | |
| Total equity | | | 80.4 | 80.7 | 78.3 | 129.7 | 138.0 | 146.4 |
| as % of total equity and liabilities | | | 20.9% | 23.3% | 25.1% | 37.4% | 37.9% | 37.8% |
| Subscribed capital | | | 47.0 | 47.0 | 18.8 | 28.2 | 28.2 | 28.2 |
| Capital reserve | | | 46.2 | 46.2 | 74.4 | 102.1 | 102.1 | 102.1 |
| Retained earnings | | | -12.4 | -12.1 | -14.5 | -0.3 | 8.0 | 16.5 |
| Treasury shares | | | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 |
| Non-current liabilities | | | 243.6 | 194.3 | 172.6 | 195.8 | 203.5 | 216.8 |
| as % of total equity and liabilities | | | 63.3% | 56.2% | 55.3% | 56.5% | 56.0% | 56.0% |
| Minority interests | | | 73.6 | 65.6 | 60.0 | 33.6 | 30.0 | 26.9 |
| Financial liabilities | | | 160.8 | 126.6 | 110.9 | 162.2 | 173.5 | 189.9 |
| Derivative financial instruments | | | 9.1 | 2.1 | 1.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | | | 0.1 | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 |
| Current liabilities | | | 61.1 | 70.9 | 61.0 | 20.9 | 22.2 | 24.1 |
| as % of total equity and liabilities | | | 15.9% | 20.5% | 19.6% | 6.0% | 6.1% | 6.2% |
| Provisions | | | 0.4 | 0.4 | 0.6 | 0.3 | 0.3 | 0.3 |
| Financial liabilities | | | 55.9 | 64.6 | 54.2 | 18.8 | 20.1 | 22.0 |
| Derivative financial instruments | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade accounts payables | | | 1.7 | 2.2 | 2.3 | 1.0 | 1.0 | 1.0 |
| Other liabilities | | | 3.1 | 3.7 | 4.1 | 0.8 | 0.8 | 0.8 |
| Total equity and liabilities | | | 385.1 | 345.9 | 311.9 | 346.4 | 363.6 | 387.3 |

Source: Company Data, Oddo Seydler Bank AG

Cash flow statement

| | IFRS | EURm | 2012 | 2013 | 2014 | 2015e | 2016e | 2017e |
|--|------|------|-------|-------|-------|-------|-------|-------|
| Net income | | | -0.2 | -5.2 | 0.0 | 16.6 | 11.7 | 13.4 |
| Cash flow from operating activities | | | 7.8 | 1.4 | 6.1 | 0.9 | 9.5 | 11.2 |
| Cash flow from investing activities | | | 3.3 | 29.1 | 22.4 | -41.7 | -22.8 | -25.4 |
| Cash flow from financing activities | | | -15.7 | -27.3 | -31.3 | 49.2 | 9.1 | 13.4 |
| Total change in cash and cash equivalents | | | -4.6 | 3.2 | -2.8 | 8.4 | -4.2 | -0.9 |
| Cash and cash equivalents at the start of the period | | | 18.8 | 14.2 | 17.4 | 14.6 | 23.0 | 18.8 |
| Cash and cash equivalents at the end of the period | | | 14.2 | 17.4 | 14.6 | 23.0 | 18.8 | 17.9 |

Source: Company Data, Oddo Seydler Bank AG

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- BUY: The expected performance of the share price is above +10%.
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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 |
|------------------|----------------|----------------------|--------------|
| 24 July 2015 | BUY | EUR 7.34 | EUR 10.00 |
| 02 April 2015 | BUY | EUR 8.37 | EUR 10.00 |
| 05 March 2015 | BUY | EUR 7.50 | EUR 10.00 |
| 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 |

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