

**Company Flash**
**Real Estate**
**Germany**
**October 23, 2007**

## Colonia Real Estate

### Waiting for transactions

- Colonia Real Estate confirmed its guidance for 2007 in a press release. As before, the company is expecting a net income of at least EUR 62-65 mn. Following the H1 report in August, we regarded the guidance as conservative and estimated net income (before minorities) of EUR 74 mn.
- Due to the current situation in the real estate transaction market, which is showing a lack of large transactions, it is difficult to forecast the deal flow until year-end. CRE is affected in the building up of its own residential portfolio as well as gaining contracts for Asset Management and equity stakes as a co-investor in these deals.
- Overall, CRE showed a very high growth trend in terms of its own portfolio and new Asset Management contracts in H1. At the moment, we are awaiting further deals; however, this could be more difficult to achieve. The company sees attractive investing opportunities in the coming 6-9 months. We agree with this view, but we have still reduced our volume projection (number of residential units and AuM volume) for 2007.
- As a result, we have reduced our net income estimate by 10% to EUR 69.9 mn. This means an increase by 115% y-o-y – in other words, in no way does this amount to weakness or a profit warning.
- Following the recent share price decrease, we clearly stick to our Buy rating. Mainly due to lower estimates, we cut our target price from EUR 41 to EUR 35.

|                         | 2004  | 2005  | 2006  | 2007e | 2008e |
|-------------------------|-------|-------|-------|-------|-------|
| Total revenues (EUR mn) | 0.8   | 43.6  | 128.5 | 183.7 | 249.3 |
| Rental income (EUR mn)  | 0.7   | 7.6   | 16.3  | 54.4  | 84.2  |
| EBITDA (EUR mn)         | -1.3  | 12.9  | 51.7  | 111.2 | 128.1 |
| Net income (EUR mn)     | -1.5  | 6.8   | 30.3  | 63.4  | 73.7  |
| EPS reported (EUR)      | -0.07 | 0.59  | 1.96  | 3.21  | 3.35  |
| NAVPS (EUR)             | 1.00  | 8.99  | 7.41  | 18.80 | 26.72 |
| DPS (EUR)               | 0     | 0     | 0     | 0     | 0     |
| ROE (%)                 | -45.0 | 38.3  | 47.0  | 30.8  | 21.1  |
| P/E (x)                 | -7.7  | 8.5   | 15.6  | 6.8   | 6.5   |
| P/CF (x)                | -7.8  | -34.5 | -37.9 | -41.8 | 17.7  |
| P/BV (x)                | 4.29  | 1.79  | 4.78  | 1.30  | 1.18  |
| P/NAV (x)               | 0     | 0.56  | 4.13  | 1.16  | 0.82  |
| EV/EBITDA (x)           | -28.9 | 9.2   | 10.8  | 9.0   | 12.7  |
| Div. yield (%)          | 0     | 0     | 0     | 0     | 0     |

Source: Company data, UniCredit Global Research

## Buy (prev. Buy)

|                                |             |
|--------------------------------|-------------|
| Price on 10/22/07              | EUR 21.85   |
| Target price (prev. EUR 41.00) | EUR 35.00   |
| Upside to TP                   | 60.2%       |
| Cost of equity                 | 9.7%        |
| High/Low (12M)                 | 42.29/21.85 |

### INVESTMENT HIGHLIGHTS

Residential portfolio with high rental yield and CF  
 Increasing share for Asset and Funds Management  
 Still attractive financing conditions

### STOCK TRIGGERS

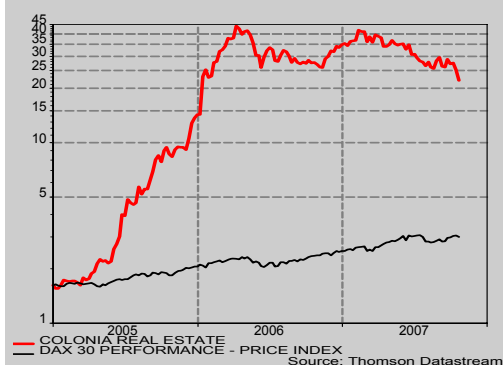
Awaiting transactions and portfolio expansion  
 Guidance is realistic and clearly achievable  
 Clear undervaluation reached

### STOCK DATA

|                                |  |
|--------------------------------|--|
| Reuters/Bloomberg              | KBUG.F/KBU GF                                  |
| Average daily volume (tds.)    | 98.3   |
| Free float (%)                 | 73.9   |
| Market capitalization (EUR bn) | 0.5  |
| No. of shares in issue (mn)    | 22.0   |
| Shareholders                   | Swiss Real Estate 25.5%,<br>Fortman Cline 0.6% |

### UPCOMING EVENTS

|                        |           |
|------------------------|-----------|
| Annual general meeting | Jul-08    |
| 9M/Q3                  | 15-Nov-07 |
| Preliminary figures    | Mar-08    |



### RELATIVE PERFORMANCE (% CHG.)

|               | 1M    | 3M    | 6M    |
|---------------|-------|-------|-------|
| DAX           | -24.4 | -20.5 | -41.8 |
| Euro STOXX 50 | -24.1 | -19.5 | -34.3 |
| ES Financ. S. | -23.8 | -13.9 | -19.4 |

Andre Remke, CFA (HVB)  
 +49 89 378-18202  
 andre.remke@hvb.de

## What is possible by year-end?

### Guidance confirmed

- The management confirmed its outlook for 2007, which projects net income (before minorities) of at least EUR 62-65 mn. This would mean an increase of 100-110% y-o-y.
- The press release also stated that the company sees attractive investing opportunities particularly in the coming 6-9 months. CRE is currently in “final talks” about new residential portfolios in an amount of up to EUR 300 mn. Increased financing costs are being compensated for by more attractive acquisition prices.
- The guidance for the Asset Management volume of EUR 4 bn for 2008 was also confirmed. Currently CRE has AuM of EUR 2.7 bn.

### Our view

Overall, the release should ease recent market concerns that CRE will have to revise its outlook or issue a profit warning. We stick to our positive view of CRE’s earnings trend and the overall business strategy. However, at the moment, the short-term growth path could be slightly hampered by the current situation in the real estate transaction market, which is showing a lack of large transactions. Due to the financial and refinancing crisis, some property sellers and buyers have been unable to reach agreements or fulfill refinancing requirements.

- CRE already made strong improvements in the volume of AuM contracts over the last 12 months. Due to the current lack of large transactions (some came through, but with unreasonably high prices), we have to cut our forecast for AuM volume from EUR 3 bn by year-end to EUR 2.7 bn, which assumes no further contracts this year. For the coming years, we see a further strong business performance by the Funds and Asset Management divisions.
- Furthermore, we have to reduce our estimate for investments in new residential units. Currently the company holds ca. 20,000 RUs. We estimated that this will reach ca. 27,000 by year-end. Despite the fact that Q4 is always the strongest quarter of the year for real estate transactions, it seems that it will be more difficult to reach our projection this year. The mentioned volume for possible investments of EUR 300 mn would translate roughly into 5,000 RUs. The question is when the closing date will be – i.e. we factored some 2,500 RUs into our model, resulting in an overall number of ca. 22,500 RUs by year-end. On the one hand, we have to reduce our rental income and first-time revaluation estimates. On the other hand, this still means an increase y-o-y from 9,000 to 22,500 RUs and a rental income increase from EUR 16 mn in 2006 to EUR 54 mn in 2007.
- With respect to the confirmed net income guidance of at least EUR 62-65 mn, we think that, up through August, the general view was that CRE will easily exceed its guidance. Due to questions concerning further deals through the end of the year, we have to cut our estimate from EUR 74 to EUR 67 mn. This will also lower the basis for 2008 (AuM and rental income).

## CHANGES IN FORECASTS

| EUR mn                              | 2006        |             | 2007e       |            | 2008e       |             | 2009e     |             |             |           |
|-------------------------------------|-------------|-------------|-------------|------------|-------------|-------------|-----------|-------------|-------------|-----------|
|                                     | reported    | new         | prev.       | dev. %     | new         | prev.       | dev. %    | new         | prev.       | dev. %    |
| Total revenues                      | 128.5       | 183.7       | 215.2       | -15        | 249.3       | 268.8       | -7        | 308.4       | 317.8       | -3        |
| EBIT                                | 51.7        | 111.1       | 120.6       | -8         | 128.1       | 139.1       | -8        | 163.5       | 167.4       | -2        |
| <b>Net income before minorities</b> | <b>31.1</b> | <b>66.9</b> | <b>74.3</b> | <b>-10</b> | <b>78.1</b> | <b>83.0</b> | <b>-6</b> | <b>91.6</b> | <b>94.9</b> | <b>-3</b> |
| Net income before minorities        | 30.3        | 63.5        | 70.7        | -10        | 73.7        | 78.6        | -6        | 86.6        | 90.0        | -4        |
| EPS basic (EUR)                     | 1.96        | 3.21        | 3.58        | -10        | 3.35        | 3.58        | -6        | 3.94        | 4.09        | -4        |
| EPS diluted (EUR)                   | 1.52        | 2.55        | 2.84        | -10        | 2.78        | 2.97        | -6        | 3.27        | 3.40        | -4        |

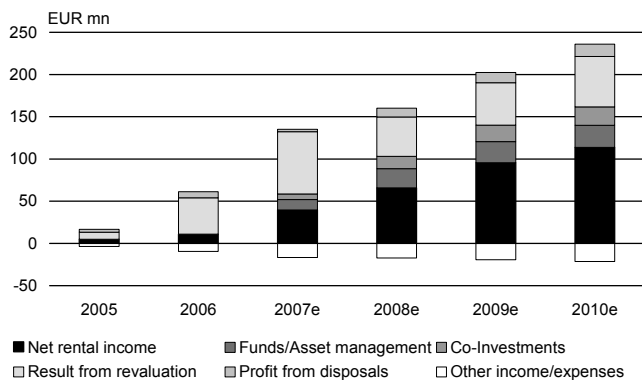
Source: Colonia Real Estate, UniCredit Global Research

**Director dealings**

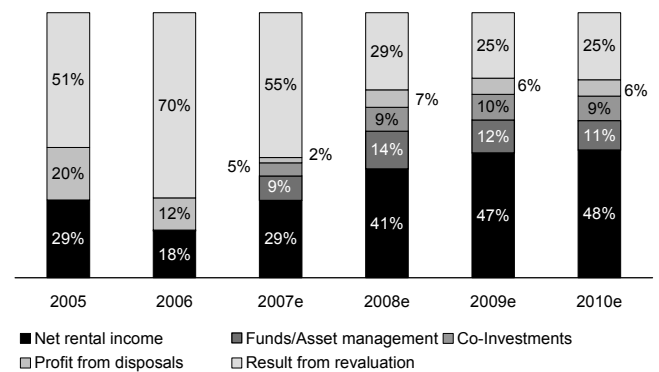
One reason for the press release was to explain the latest director dealings by the CEO and CFO on October 9. They sold some of the equity (117,000 shares) that they received as part of the 2005 employee stock option program and that was converted into shares (240,000) four weeks ago. The delta between EUR 2.90 (strike price) and EUR 28 (share price at the time of exercise) has to be taxed at the personal tax rate. The partial sale of shares will cover the tax burden. The management stated that no further disposals are planned.

**EBIT IN ABSOLUTE AND RELATIVE TERMS**

**Absolute performance**



**Relative performance**



Source: UniCredit Global Research

**Valuation – Buy rating confirmed**

**Target price from EUR 41 to EUR 35**

We value CRE shares with an SOP valuation (fair value: EUR 33.07), a DCF model (EUR 32.92) and a cost of capital model (37.89). The average of all models is EUR 34.63. The main reason for the target price decrease from EUR 41 to EUR 35 is the above-mentioned cut in our estimates and, to a lesser extent, the overall sector valuation. However, we reaffirm our Buy recommendation for valuation reasons. Overall, CRE remains well on the way to achieving and benefiting from its business model. CRE has already laid the foundation to increase its share of recurring revenues for 2008 and 2009. This is also reflected in the EBIT breakdown (see chart above).

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|---------------------|-----|
| Colonia Real Estate | 2   |

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|---------------------|------------|------------|----------|--------------|
| Colonia Real Estate | 07/25/2007 | Buy        | EUR      | 41.00        |
| Colonia Real Estate | 06/26/2007 | Buy        | EUR      | 45.00        |
| Colonia Real Estate | 04/26/2007 | –          | EUR      |              |
| Colonia Real Estate | 03/12/2007 | Buy        | EUR      | 45.00        |
| Colonia Real Estate | 12/06/2006 | Buy        | EUR      | 39.00        |
| Colonia Real Estate | 11/16/2006 | Outperform | EUR      | 39.00        |
| Colonia Real Estate | 10/16/2006 | Outperform | EUR      | 37.00        |

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**UniCredit Global Research\***

Thorsten Weinelt, CFA  
Global Head of Research & Chief Strategist  
+49 89 378-15110  
thorsten.weinelt@hvb.de

Dr. Ingo Heimig  
Head of Research Operations  
+49 89 378-13952  
ingo.heimig@hvb.de

**Global Equity Research**

Mark Robinson, Head  
+44 20 7309 7873, robinsonm@ca-ib.com

Tomasz Bardzilowski, CFA, Deputy Head  
+48 22 520 9979, bardzilowskit@ca-ib.com

**Equity Research Germany**

Andreas Heine, Co-Head, +49 89 378-16921, andreas.heine@hvb.de  
Georg Stürzer, Co-Head, +49 89 378-18252, georg.stuerzer@hvb.de

**Real Estate**

Andre Remke, CFA  
+49 89 378-18202, andre.remke@hvb.de  
Mathias Becker  
+49 89 378-17844, mathias.becker@hvb.de  
Daniela Heyduck  
+49 89 378-15183, daniela.heyduck@hvb.de

**Aerospace & Defence/Airlines/Industrials/Retail/  
Tourism, Leisure & Services/Steel**

Christian Obst  
+49 89 378-15117, christian.obst@hvb.de  
Volker Bosse  
+49 89 378-11398, volker.bosse@hvb.de  
Stefan Halter  
+49 89 378-15119, stefan.halter@hvb.de  
Peter Rothenaicher  
+49 89 378-18718, peter.rothenaicher@hvb.de  
Uwe Weinreich  
+49 89 378-12640, uwe.weinreich@hvb.de

**Semiconductors/Software/Telecom/Technology**

Knut Woller  
+49 89 378-11381, knut.woller@hvb.de  
Thomas Friedrich, CFA  
+49 89 378-12798, thomas.friedrich01@hvb.de  
Guenther Hollfelder, CFA  
+49 89 378-18776, guenther.hollfelder@hvb.de  
Roland D.-W. Pitz  
+49 89 378-11385, roland.pitz@hvb.de

**Automobiles & Parts**

Georg Stürzer  
+49 89 378-18252, georg.stuerzer@hvb.de  
Nathan Kohlhoff, CFA  
+49 89 378-11394, nathan.kohlhoff@hvb.de

**Utilities/Construction & Materials/Renewables**

Karin Brinkmann  
+49 89 378-13946, karin.brinkmann@hvb.de  
Alexander Stiehler  
+49 89 378-18634, alexander.stiehler@hvb.de

**Banks**

Dr. Andreas Weese  
+49 89 378-12561, andreas.weese@hvb.de  
Kerstin Vitvar  
+49 89 378-11392, kerstin.vitvar@hvb.de

**Global Equity Strategy**

Gerhard Schwarz, Head  
+49 89 378-12421, gerhard.schwarz01@hvb.de  
Volker Bien  
+49 89 378-18148, volker.bien@hvb.de  
Nigel Croft  
+44 207 826-6680, nigel.croft@hvbeurope.com  
Dr. Tammo Greetfeld  
+49 89 378-18361, tammo.greetfeld@hvb.de  
Christian Stocker  
+49 89 378-18603, christian.stocker@hvb.de

**Chemicals/Pharmaceuticals & Biotech**

Andreas Heine  
+49 89 378-16921, andreas.heine@hvb.de  
Christian Cohrs  
+49 89 378-17101, christian.cohrs@hvb.de  
Markus Mayer  
+49 89 378-18670, markus.mayer@hvb.de  
Christian Weiz  
+49 89 378-15229, christian.weiz@hvb.de

**Insurance/Financial Services**

Lucio Di Geronimo  
+49 89 378-11610, lucio.digeronimo@hvb.de  
Bernd Müller-Gerberding, CFA  
+49 89 378-18706, bernd.mueller-gerberding@hvb.de

**Equity Sales**

**Equity Sales Munich**  
+49 89 378-14129

**Equity Sales London**  
+44 207 826 6949

**Equity Sales Milan**  
+39 02 7202 3905

**Equity Sales New York**  
+1 212 672 6140

**Equity Sales Vienna**  
+43 5 0505 82976

**Equity Sales Zurich**  
+41 44 288 7700

**Media/Specialities**

Friedrich Schellmoser  
+49 89 378-11396, friedrich.schellmoser@hvb.de

**Publication Address**

**UniCredit Markets & Investment Banking**  
Bayerische Hypo- und Vereinsbank AG  
Global Research  
Arabellastrasse 12  
D-81925 Munich  
Tel. +49 89 378-18778  
Fax +49 89 378-18352

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