

**Real Estate**  
Germany

# Colonia Real Estate

KBUG.DE; KBU GR

**Buy**

Unchanged

**2005 preliminary results released****Current price €136.5, Target price €175**

The company issued headline preliminary 2005 results on 7 March 2006. Sales came in at €20.9m, 5% above our estimate of €20.0m. Total performance according to IFRS was €40.9m, which compares with our estimate of €28.7m (€20m in sales and €8.7m in IFRS 40 adjustments) This latter figure was difficult to estimate, as CRE employed the IFRS 40 rule for the first time at the end of 2005. Net profit reached €6.42m or €1.85/share. We assumed cash EPS of €1.78 and total EPS of €3.30 (including IFRS 40 adjustments).

**Sales in line, good segmental mix**

CRE's 2005 sales were in line with estimates at €20.9m. On the contribution side, rental income accounted for €7.3m or 35% of total sales. This indicates to us that CRE has been able to build a solid portfolio. Rental income represents the stable and smoothly growing part of CRE's revenue stream. €13.6m in sales resulted from asset trading activities and re-valuations. We understand that €40.9m of the total performance includes further asset transactions, which are classified as 'asset disposals' under the IFRS guidelines and not as sales.

**Net profit figure suggest material upside in Q1 2006**

Net profits came in at €6.42m against our estimates of €11.8m, which included €5.4m net in IFRS 40 re-valuations. We understand from the company that CRE had been able to keep IFRS 40 adjustments to very moderate levels. The reason lies in the fact that CRE only bought the majority of its assets (the Grasmus portfolio) in 2005 and was not required to re-value it significantly. Other re-valuations include its hotel and office buildings. Given the very moderate adjustments (we assume €4m-€5m pre-tax against our estimate of €8.7m), Q1 2006 results should benefit substantially from the IFRS 40 rule.

**IFRS 40 to boost 2005 earnings and Q1 earnings well above company guidance**

As CRE shifted into the Prime Standard Segment of the German stock market as of January 2006, IFRS 40 adjustments will be required for each quarter, i.e. in particular for Q1 2006. Based on the share deal returns achieved with the sale of the Lueneburg assets, we now assume that CRE would need to add €3.8m to our Q1 2006 IFRS adjustment. This appears to be justified by the fact that CRE has reduced vacancies, for example within the Grasmus portfolio, from 10.5% to 6.5%.

**Balance sheet total in line with expectations, stronger-than-expected equity proportion**

The 2005 balance sheet total came in at €139.3m, slightly below our estimate of €139.8m. However, CRE said that shareholders' equity accounted for 22.5% of this sum, or €31.5m. This is higher than we had estimated. We were looking for €25m, or 18%. This ratio should have improved further, as CRE issued 100,000 shares at €17.50 (equal to €1.75m) and another 240,000 shares at €129.50 (equal to €31m) in Q1 2006. Currently, the group's equity should therefore be more than twice the level it was at the end of 2005.

**News flow positive for the coming months**

We expect positive news flow from CRE. Following the acquisition of the Resolution Management Group, we expect CRE to conclude some of its planned asset disposals in Q1 2006. On the other side, pending purchases should come to a close. We assume that these purchases will be impaired in Q1 2006, with a positive Q1 IFRS 40 impact of between €15.5m (€1.7m from Bremen, €13.8m from Hamburg) and €19.8m (i.e. €15.5m plus additional Grasmus adjustments of €3.8m, which we had expected already for 2005). This calculation is based on the company's intention to re-value existing assets (i.e. the Grasmus portfolio) only twice a year, possibly not in Q1 2006.

We understand that CRE is currently undertaking a set of road shows to explain the Resolution GmbH acquisition and the future development of CRE to its investors.

**Analyst****Ralf Grönemeyer**

+49 69 136 22472

ralf.groenemeyer@commerzbank.com

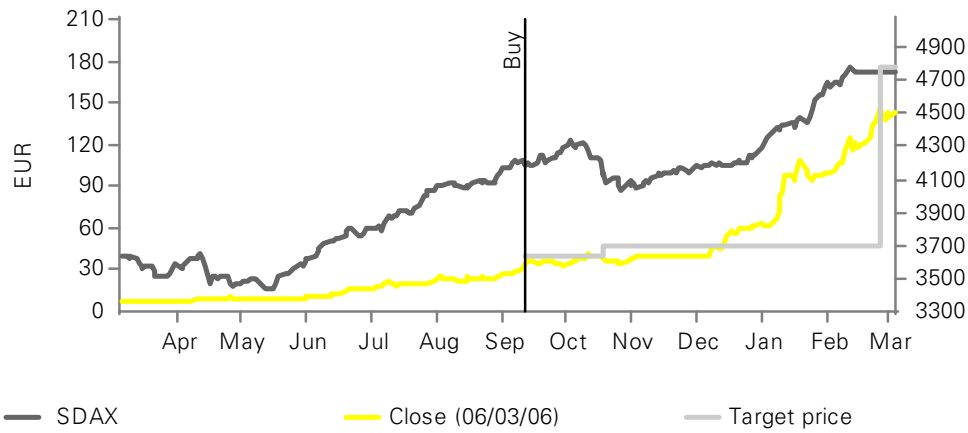
[www.cbksec.com/rsh/real\\_estate.html](http://www.cbksec.com/rsh/real_estate.html)**For important disclosure information please see pages 4 and 5**

## **We maintain our target price of €175.0 and our Buy recommendation**

2005 results came in in line with expectations. Net profit margins of 30.7% (on sales) and 15.6% (on total performance) underline the validity of CRE's business model.

We expect 'operational EPS' in 2006 to rise by 300% to €7.40/share and total EPS, including IFRS40 adjustments, to rise by €15.17 in 2006 and €18.82 in 2007. The importance of the stable rental business is likely to rise to almost 50% of total EBIT in the coming years, from 35% in 2005, making the company less dependent on the success of its sales activities. The move into asset management is, we believe, clearly value enhancing, and, in addition, should enable CRE to expand into REITs and fund management at a later stage.

CHART 1: **Colonia Real Estate price chart**



Source: Commerzbank Corporates & Markets

From 7 January 2005 Commerzbank Corporates & Markets changed its equity rating system from a sector-relative to an absolute system. Buy = >10% appreciation over a 12-month period; Hold -10%+10%; Sell <-10%. For further details, please see [www.cbksec.com/research/legal.htm](http://www.cbksec.com/research/legal.htm)

TABLE 1: **Stock rating allocation**

	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>
No. of companies under coverage with this rating	35	20	6
% of companies under coverage with this rating	57%	33%	10%

Source: Commerzbank Corporates & Markets

For each company covered in this report, the views presented accurately reflect the personal views of the analyst. No part of the analysts' compensation was, is or will be directly or indirectly related to the recommendations or views expressed.

For important disclosure information please see [www.cbksec.com/research/legal.html](http://www.cbksec.com/research/legal.html)

### **Equity Recommendation Definitions**

Commerzbank Corporates & Markets Research fundamental equity analysts rate the shares of the companies they cover on an absolute basis using a 12-month target price. Stocks showing implied share price upside of more than 10% from the current price to the 12-month target price are rated Buy. Stocks with more than 10% downside from the current share price to the 12-month target price are rated Sell. Stocks where the current share price is within a 10% range of the 12-month price target are rated Hold. For further details, please see <http://www.cbksec.com/research/legal.html>

### **Additional information available on request**

This document has been created and published by the Corporates & Markets division of Commerzbank AG, Frankfurt/Main or the group companies mentioned in the document ("Commerzbank"). The document is intended for distribution to the bank's professional and institutional clients and not to its private clients.

Commerzbank Corporates & Markets (CBCM) is the investment banking division of Commerzbank AG, integrating debt, equities, interest rates and foreign exchange, with specific expertise in corporate risk and capital structuring.

Any information in this report is based on data obtained from sources considered to be reliable, but no representations or guarantees are made by Commerzbank Group with regard to the accuracy or completeness of the data. The opinions and estimates contained herein constitute our best judgement at this date and time, and are subject to change without notice. This report is for information purposes, it is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the securities mentioned in this report.

Commerzbank Group may provide banking or other advisory services to interested parties.

This report is intended solely for distribution to professional and business customers of Commerzbank Group. It is not intended to be distributed to private investors or private customers. Not for distribution to third parties. Commerzbank Group accepts no responsibility or liability whatsoever for any expense, loss or damages arising out of or in any way connected with the use of all or any part of this report.

Commerzbank AG, its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report. Commerzbank AG, its executives, managers and employees may hold shares or positions, possibly even short sale positions, in securities included in this report or related investments.

### **Specific notices of possible conflicts of interest with respect to issuers or securities forming the subject of this report (No. 1-8 acc. to German law, no. 9-11 acc. to UK/US law, no.12-14 acc. to US law – NYSE Rule 472(k) and NASD Rule 2711(h)(2)):**

3. Commerzbank AG and its affiliates regularly hold shares of Colonia Real Estate in their trading portfolios.
6. Commerzbank AG, or its affiliates, acts as sponsor for the analysed securities of Colonia Real Estate on stock exchanges or in markets.

**Additional note to readers in the following countries:**

**Germany:** Commerzbank AG is supervised by the German regulator Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). This report is intended to help customers make their own independent investment decisions, and is no substitute for investor and investment-based consulting. The information contained in this report was compiled with care. In compliance with statutory and regulatory provisions, Commerzbank has made internal organisational arrangements so as to prevent as far as possible any conflicts of interest in preparing and transmitting analyses. These include, in particular, in-house information barriers (Chinese walls). These barriers prevent giving analysts access to information that may cause conflicts of interest for Commerzbank AG with regard to the analysed issuer or its financial instruments. These information barriers also apply to any information not in the public domain to which Commerzbank AG may have access from a business relationship with the issuer. For statutory or contractual reasons, this information cannot be used in an analysis of the securities and are therefore not included in this report.

**United Kingdom:** This report has been issued or approved for issue in the UK to professionals and business customers only, by Commerzbank AG, London Branch, which is authorised by the German regulator Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and by the Financial Services Authority, regulated by the Financial Services Authority for the conduct of business in the UK, and is a member firm of the London Stock Exchange and incorporated in Germany with limited liability. It is not for distribution or the use of private customers.

**United States:** Commerzbank Capital Markets Corp. (a wholly owned subsidiary of Commerzbank AG) is a U.S. registered broker-dealer and has accepted responsibility for the distribution of this report in the United States under applicable requirements. Any transaction by US persons must be effected with Commerzbank Capital Markets Corp. Under applicable US law; information regarding clients of CCMC may be distributed to other companies within the Commerzbank Group.

**Italy:** You should contact Commerzbank AG London Branch if you wish to use our services to effect a transaction in any of the securities mentioned in this publication. This report has been issued for distribution in Italy only to professional customers as defined in article 31 of Consob regulation 11522/98 and later modifications.

© 2006 No part of this report may be reproduced or distributed in any manner without permission of Commerzbank Group. In particular Commerzbank Group does not allow the redistribution of this report to non-professional investors and cannot be held responsible in any way for any third parties who effect such redistribution.

**Commerzbank Corporates & Markets****Frankfurt**

Commerzbank AG

DLZ - Gebäude 2, Händlerhaus  
Mainzer Landstraße 153  
60327 FrankfurtTel: + 49 69 136 44440  
Fax: + 49 69 136 40357**London**

Commerzbank AG

London Branch  
60 Gracechurch Street,  
London  
EC3V 0HRTel: + 44 20 7653 7000  
Fax: + 44 20 7653 7400**New York**Commerzbank Capital  
Markets Corp.2 World Financial Center,  
31<sup>st</sup> Floor,  
New York,  
NY 10281-1050Tel: + 1 212 703 4000  
Fax: + 1 212 703 4201