

Hold

Current €6.52

Target €8.00

Current price equivalent

\$9.61

Market cap

€148.8m

\$219.3m

52-week high/low

€29.85/€6.150

Price perf.	1M	3M	12M
Price (€)	6.5	12.9	28.0
Absolute (%)	4.7	-50.2	-76.0
Rel market (%)	14.9	-33.7	-67.9
Rel sector (%)	11.6	-21.1	-64.1

Source: DKIB, Thomson IBES

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Colonia Real Estate

Forecast highly dependent on disposals

Colonia's Q2-figures were below our estimates in particular the result for asset management. There was some confusion on Colonia's new profit guidance for net profit of €20-25m down from €70-75m. In the conference call the CEO stressed that the new guidance includes only cash-realised earnings but no revaluation gains. However, we are skeptical as disposals need to be closed.

Colonia Real Estate forecasts

Year	Sales EUR m	EBIT incl associates EUR m	EBIT margin %	Net income EUR m	Dil EPS incl except EUR	P/E x	EV/ EBITDA x	Yield %	P/NAV x
Dec-2006A	129	52	40.2	30	1.73	3.3	3.8	0.0	1.0
Dec-2007A	148	83	56.2	66	2.63	2.0	7.1	3.8	0.4
Dec-2008E	240	48	20.1	14	0.55	9.5	12.7	2.6	0.5
Dec-2009E	254	73	29.0	25	0.98	5.3	13.7	2.6	0.5
Dec-2010E	264	77	29.3	23	0.91	5.6	16.0	2.6	0.5

Source: Company data, Dresdner Kleinwort Research estimates

- ▶ Colonia's disposal volume is about 15% of the residential portfolio which means about 3,000 units. They are working on a number of transactions which also includes the disposal of the hotel portfolio and forecast a gain on disposals of €10-12m. In general, Colonia expects an increase on the investment markets and mentioned to work at a volume of more than €1.0bn for institutional clients.
- ▶ Colonia is hit by the difficult investment markets reflected by the disappointing results in asset management. The CEO recently mentioned to compensate the loss of €1.0bn AuM at the end of the year after Oaktree has terminated the existing contract. While we also expect that investment markets will recover moderately at year-end we are skeptical if Colonia will benefit as the competition in the asset management business is increasing as well as more investors are internalising these activities.
- ▶ We do not expect that Colonia will be able to show a net increase of its own residential portfolio after disposals. Though the company confirmed its intention to grow and to screen currently the markets Colonia does not have the financial power to buy. While the existing financial situation is stable with an equity ratio of 30% the potential to grow is limited. In connection with the slowdown in asset management Colonia's earnings momentum is coming down so we keep it on a Hold-rating.
- ▶ The Q2-results were uninspiring and rather disappointing. The lower result in asset management reflects that a number of clients have postponed or cancelled their transactions. In particular the high administration costs of -€15.6m (E: -€14.3m which was already high) was not expected though some one-offs are included. Also the

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CEO regards the administration costs as too high and said that a cost savings programm has already been started without giving more details. However, the high cost base is surprising as Colonia is still a young company.

P&L (€m)	H1 2008 E	H1 2008 A
Gross rental income	28.83	28.90
Service charge on principal basis	12.39	15.60
Net income from asset and funds management	1.48	0.60
EBIT	9.51	5.62
Interest income	10.89	16.60
Net profit	-4.01	-2.00

Source: Company data, Dresdner Kleinwort Research estimates

- ▶ We think that Colonia's integrated business model is still attractive but the company has to prove to be successful also in difficult market environments. Colonia has a track record in buying and in increasing value of "work-out"-portfolios as shown in the Berlin Capital. However, as the new guidance is dependent on a significant improvement of the investment markets which has not yet materialised we remain cautious for the time being. Our valuation is based on ROCE, EVA-valuation and SOTP.

Disclosure appendix

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Buy:	10% or greater increase in share price	Sell:	10% or more decrease in share price
Add:	5-10% increase in share price	Reduce:	5-10% decrease in share price
Hold:	+5%/-5% variation in share price		

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	All covered companies		Companies where a Dresdner Kleinwort company has provided investment banking services (in the last 12 months)	
Buy/Add	358	62%	47	13%
Hold	152	26%	314	9%
Sell/Reduce	64	11%	11	17%
Total	574		72	

Source: Dresdner Kleinwort

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