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## Colonia Real Estate AG

### Good deal, supports our buy stance on the stock

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<b>Rating: Buy</b>	<b>Target price: €7.50</b>	<b>Close 03/09/09: €3.32</b>	<b>RIC: KBUG.DE</b>
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Colonia Real Estate sold a portfolio of 937 residential units and 79 commercial units in Berlin for €67m. We estimate that CRE had made a profit (pre transaction costs) of about €3m. Earlier we estimated that the debt of the portfolio would be around €50m, suggesting that CRE received €15-17m in cash. This will boost its cash position to €30 - 33m as of now, representing 1/3 of its market capitalisation. The transaction is noteworthy, as it resulted in a net result north of its IFRS value, indicating that CRE's move to book IFRS gains in Q2 2008 were justifiable.

The publicly listed company conwert Immobilien Invest SE has acquired three property companies from Colonia Real Estate AG with 1,016 units in Berlin. The transaction volume (including incidental acquisition costs) totals close to EUR 67 million. The acquired property portfolio involves top quality properties in good and extremely good locations in Germany's capital city, which were predominantly built in the years 1900-1920. The total usable space of the properties is about 76,600 sqm, of which 90% comprises apartments. A moderate average acquisition price of approx. EUR 875/sqm could be achieved in the transaction, featuring entry yields of over 7% and vacancies of below 6%.

We assume that the price for the residential units were well above the €900/sqm level, while the commercial part was below it. At a rental yield over 7%, the transaction was closed at around 13.5 times annual rent, a very good result.

#### **Comment:**

**Where will this lead to?**

We expect CRE's interest payments to drop by at least some €2.5m annually from the current €29m level. In addition, its cash flow structure will improve, as annuities were rather high with this portfolio.

We assume that CRE would use the funds to re-purchase costly debt from markets and banks. This would improve balance sheet ratios and support our view that CRE would stay cash flow positive in the run of 2009 and beyond.

We maintain our buy recommendation on the basis of the deal. We might need to raise our current 2009 earnings guidance, if CRE would achieve a substantial restructuring of its liability side. Currently, we have estimated asset sales of €73m for the full year and a positive EBIT contribution of around €2.5m. This might be a touch to light on the back of this transaction.

<b>CRE P&amp;L €'000</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
<b>Group Performance</b>	<b>85,699</b>	<b>98,614</b>	<b>107,407</b>	<b>178,271</b>	<b>196,720</b>	<b>204,289</b>
Rental income gross	20,461	51,228	89,467	91,397	95,319	98,877
- thereof passed on revenues	4,191	10,246	17,893	18,279	19,064	19,775
Fee income gross (AM)	3,031	15,313	9,443	8,500	19,875	21,000
Fee income gross (FM)	-	2,300	-	-	-	-
Trade income gross	62,000	-	2,351	73,373	76,526	79,412
Other income	207	19,528	6,140	5,000	5,000	5,000
Costs of goods sold trade	54,574	-	2,097	71,723	65,047	67,501
Costs of goods sold rental	9,632	28,406	58,401	55,748	48,890	50,715
Costs of goods sold AM/FM	2,805	16,073	10,640	6,750	18,841	19,993
Administrative costs	8,940	31,019	20,899	12,250	10,998	10,121
- thereof personal	6,800	12,146	14,471	7,236	6,693	6,860
Other costs	918	284	2,331	2,750	2,750	2,750
<b>Operating Costs</b>	<b>76,869</b>	<b>75,782</b>	<b>94,368</b>	<b>149,220</b>	<b>146,527</b>	<b>151,079</b>
<b>EBITDA</b>	<b>8,830</b>	<b>22,832</b>	<b>13,040</b>	<b>29,050</b>	<b>50,193</b>	<b>53,210</b>
EBIT	8,830	22,832	13,040	29,050	50,193	53,210
<b>EBIT after non-recurring</b>	<b>8,830</b>	<b>22,832</b>	<b>12,525</b>	<b>37,450</b>	<b>50,193</b>	<b>53,210</b>
Pre tax income	42,443	53,508	- 94,369	2,906	19,248	32,031
<b>Net income</b>	<b>30,321</b>	<b>65,970</b>	<b>- 82,568</b>	<b>4,337</b>	<b>16,565</b>	<b>26,586</b>
<b>EPS €</b>	<b>1.93</b>	<b>2.94</b>	<b>- 3.62</b>	<b>0.15</b>	<b>0.58</b>	<b>0.93</b>
Number of shares	15,704	22,466	22,826	28,460	28,460	28,460
EBITDA margin	10.3%	23.2%	12.1%	16.3%	25.5%	26.0%
Pre tax margin	49.5%	54.3%	-87.9%	1.6%	9.8%	15.7%
NOI margin (rental)	52.9%	44.6%	34.7%	39.0%	48.7%	48.7%
Admin cost ratio	10.4%	31.5%	19.5%	6.9%	5.6%	5.0%
<b>Average share price €</b>				<b>3.32</b>	<b>3.32</b>	<b>3.32</b>
<b>Average P/E</b>			-	<b>21.79</b>	<b>5.70</b>	<b>3.55</b>

Source: Silvia Quandt Research GmbH

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