

2 September 2008

Colonia Real Estate AG

Buy	€5.8
(Remains Unchanged)	
Target Price:	€9.0 (12.0)
Reuters Code:	KBUG.DE
Bloomberg Ticker:	KBU GY
EPS adj.	
Dec 2007A	€2.61
Dec 2008E	€0.69 (2.48)
Dec 2009E	€0.83 (2.70)
Dec 2010E	€1.25 (3.04)
WestLB Research estimates	
Market Cap:	€ 131m
Current recommendation since	11/06/2007
Previous recommendation was	Add

For disclosures and statements required by regulatory bodies, please see the last page.

Research analyst(s)

Dr. Georg Kanders +49(0)211 826 5912
georg.kanders@westlb.de
Thomas Effler +49(0)211 826 71966
thomas.effler@westlb.de

Colonia Real Estate AG

H2 should be better

- Reviewing our model after the company had slashed its guidance for the current year we are arriving at significantly lower estimates for EPS and NAV. This results in a reduction of the target price to € 9. As the share price has reacted quite negatively and the company is currently trading at a discount of close to 60% to our reduced NAV estimates we are however sticking to the BUY recommendation. We expect Colonia to show a significant improvement in operating results and also to be able to announce some deals.

Colonia Real Estate AG forecasts and multiples

Year End	Sales	EBITDA	EPS adj.	P/E	EV/EBITDA	Yield
Dec	(€m)	(€m)	(€)	(x)	(x)	(%)
2007A	157	18	2.61	2.2	41.0	4.3
2008E	236	55	0.69	8.3	11.5	10.4
2009E	256	48	0.83	7.0	13.6	12.2
2010E	291	55	1.25	4.6	12.5	13.9
Net cash/Share ¹	-€21.7					
NAV/Share	€13.8					

¹ Cash/debt at end of current year

Source Colonia Real Estate AG, WestLB Research estimates

- Given the reduced activity in the German property market and the increase in initial yields we have reduced our expectations on valuation gains for Colonia to 0 and expect just € 10m in sales gains in 2008.
- As it is very unlikely that the company can raise equity at prices not to far below NAV we also have adjusted our estimates for portfolio expansion and rental income esp. for the years 2009 and 2010. This has on the other hand a compensating effect on the net financial result.

Changes in estimates

	2008E			2009E			2010E		
	new	old	change	new	old	change	new	old	change
€m									
Rental income	58.7	61	-3.8%	62.1	78.5	-20.9%	65.5	106.3	-38.4%
Revenues from Asset and Fund Management	20.2	21.6	-6.5%	21.3	29.3	-27.3%	28.9	34.9	-17.2%
Administrative expenses	25	20.5	22.0%	26.4	21.7	21.7%	28	23.1	21.2%
Disposal and revaluation gains	11	78	-85.9%	19.6	61.4	-68.1%	27.8	78.4	-64.5%
Financial result	-21.5	-28.8	-25.3%	-26.1	-34.8	-25.0%	-27.1	-51.2	-47.1%
Pretax profit	24.8	89	-72.1%	30.4	96.4	-68.5%	45.8	119.6	-61.7%
Attributable result	19.8	70.9	-72.1%	23.6	77.2	-69.4%	35.6	95.8	-62.8%
EPS (€)	0.69	2.48	-72.2%	0.83	2.7	-69.3%	1.25	3.04	-58.9%
NAV per share (€)	13.77	18.27	-24.6%	14.75	21.82	-32.4%	16.18	23.97	-32.5%

Source WestLB Research estimates

- In the NAV calculation we have significantly reduced the value of the asset management and funds business from more than € 100m to just € 41m. This

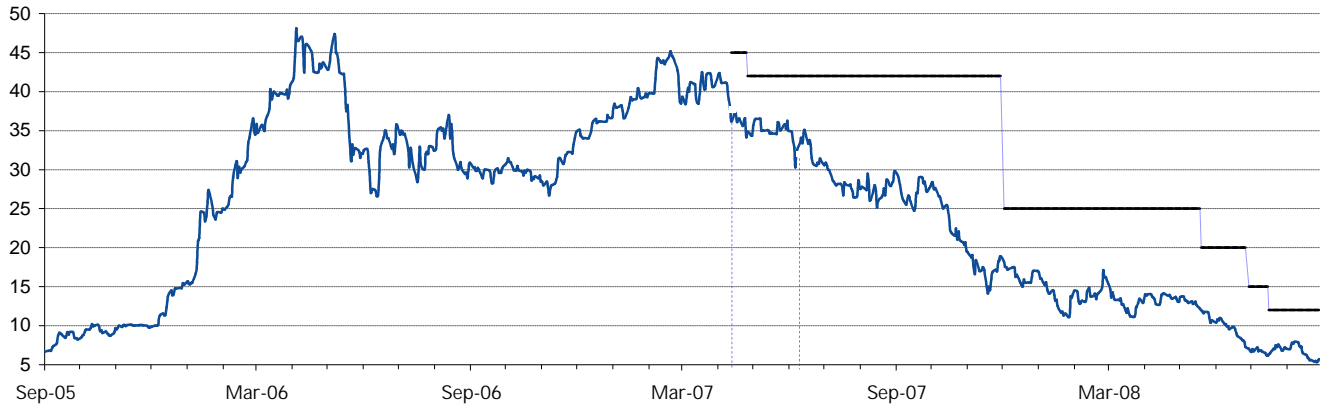
unit in absence of transaction and performance fees and without a fund placement produced only very little fee income. In addition former growth perspectives are reduced as key client Oaktree has cancelled his asset management contract. We would raise the value again if Colonia shows that it is able to generate performance and exit fees in H2 and continues to win additional mandates.

- We think that Colonia can improve newsflow in H2. We expect the company to announce transactions in the AM unit that should go along with acquisition, exit or performance fees. It has already won AM mandates with a volume of more than €150m in August. The nursery home fund that produced only costs in H1 is going to be placed thus lead to revenues in addition to some cost recovery. In addition the company should be able to sell €120m of its property with a sales gain of € 10m thus securing an improved dividend. In addition we expect the growth in rental income to accelerate as a large refurbishment project is going to be finished in Q3.
- It is important to note that the cuts in estimates especially affect our assumptions on disposal and revaluation gains. The change on the more operational figures is lower due to the compensating savings on interest expenses.
- The main factor for the determination of the target price is the NAV. We think that Colonia should be valued at a discount of appr. 40% of NAV. Adding the dividend last paid and the expected dividend of € 0.60 we arrive at target price of € 9.
- All in all we are sticking to our BUY recommendation as the sentiment for this stock has turned far too negative. This once as growth stock classified company is now trading at a discount to NAV (2008E) of nearly 60%.

Dr. Georg Kanders

02 September 2008

Colonia Real Estate AG KBUG.DE



Date	Price	Changed to...	Date	Price	Changed to...	Date	Price	Changed to...
11-Jun-07	33.47	Buy	13-Apr-07	36.20	Add	12-Apr-07	38.00	

Coverage History No Rating as of 02/09/2005

Source FactSet/JCF, WestLB Research

Initiation of coverage as of 16 Apr 2007

WestLB AG
Herzogstrasse 15
D-40217 Düsseldorf
Germany

WestLB AG
London Branch
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA
United Kingdom

T: +49 (0)211 826 71841 T: +44 (0)20 7020 2000
F: +49 (0)211 826 6154 F: +44 (0)20 7020 4209

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Sell/Reduce	23	10	Sell/Reduce	3	6

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