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# Colonia Real Estate:
Conference call comments

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**CRE reported of good operating results in rental business, while Asset Management still showed a small loss. Transaction activities were sluggish, but CRE sees improvements in H2 2009 and in 2010. We remain optimistic, but do not change our forecast model for the time being. However, we become more confident and re-iterate our Buy recommendation with a €7,50 price target**

CRE reported a net profit, which leads to an increase in NAV. While this increase in NAV was due to a one off gain from a loan repurchase (with haircut), operational results were rather sound. After a cash flow loss of around €1.8m (before extraord. items) in Q1 2008, the loss was cut to €600,000 in Q1 2009 and will turn positive in Q2 2009. EBIT (€7.64m) already exceeded interest costs (€7.49m) in Q1 2009.

CRE expects to sell up to €30m of units in 2009, chiefly to private investors and tenants. While there was little transaction volume in Q1 2009 (actually, CRE bought assets worth €2.6m), notarized volume increased to €3m in Q2 2009 so far and is seen jumping in Q3 and Q4 (typical seasonality). CRE expects to sell assets with a 20 - 25% margin, which would add €6m to the pre tax profit line in 2009.The notarized transaction were conducted at a 5.7% exit yield, or a >17x rent multiple.

CRE would even sell units at NAV, as the stock currently trades at a 70% discount to NAV. Assuming a sale of all transactions at NAV, CRE would end up with €260m in cash (current market cap. €88m)

CRE undertakes a stiff cost cut program. This leads to true operating costs of €2.6m in Q1 2009, well below the €6.3m in Q1 2008 (which, however, included almost €4m in external lawyer and consultant fees). CRE commits itself to a €10m cost target for 2009, about half of the 2008 level.

Asset management saw revenues of €1.4m, but a loss of €0.3m. Also here, the Q1 business is typically weak, but its is expected that volumes increase in the following quarters. However, AM still suffers from the termination of the Oaktree business as of January 1st, 2009. CRE believes that AM should be able to turn into positive territory to the tune of €1 -2m this year.

CRE continues to restructure its loan book. There will be no re-financing needs in 2009, and just €17m in 2010. We understand that CRE considers further restructuring of its loan books in the near future, chiefly in order to reduce requirements in 2011.

**Overall, CRE rather surprised on the net earnings side and reported in line with previous comments on the operational side. We believe that CRE would become one of the beneficiaries of the current privatisation spree, as its tenants are sufficiently affluent and private investors seek inflation protection through investments in real estate. These investors accept yields of 5.5% - 6.0%, allowing CRE to book profits - even on IFRS values.**

| 2008 | COLONIA REAL ESTATE | Q1 2009 |
|---|---|---|
| Revenues | 107,4 | 23,6 |
| -thereof rental income | 89,5 | 22,2 |
| -thereof other | 17,9 | 1,4 |
| EBITDA | 12,6 | 7,7 |
| EBIT | 12,5 | 7,6 |
| EBIT (pre IFRS) | 83,6 | -1,1 |
| -thereof IFRS valuation | -71,1 | 8,7 |
| -thereof interest expenses) | 31,8 | 7,5 |
| Pre-tax | -94,4 | |
| Net profit | -82,9 | 7,7 |
| | | |
| NRI (net rental income) | 60,3 | 15,1 |
| NOI (net operating income) | 31,4 | 10,6 |
| FFO (funds from operations) | -11,5 | -2,0 |
| yield (rental yield) | 6,98% | 1,74% |
| | | |
| Balance sheet total | 928 | 925 |
| Investment properties | 863,5 | 865,7 |
| Equity | 225,3 | 227,5 |
| Net debt | 667,7 | 638 |
| | | |
| LTV (loan to value) | 75,70% | 175,70% |
| DCR (debt coverage ratio) | 98,74% | 141,33% |
| ICR (interest coverage ratio) | 262,89% | 135,00% |
| | | |
| NAV/Share | 11,65 € | 11,97 € |

*Source: company reports SQR*

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