

/ morning bite /

COMMERZBANK EQUITY RESEARCH

Colonia Real Estate

Q2/H1 results in line, optimistic outlook

Following yesterday's announcement to raise its stake in Resolution from 56% to 75.1%, the company released strong H1 results. Recurring revenues from rental and asset management rose to €33.1m and exceeded our estimates by 1%. Net profits were affected by a €61.5m IFRS appreciation and reached €47.3m, about €6m less than we had expected. The company increased its guidance from €62–65m to 'at least' €62–65m.

H1 net profits below our estimates at first sight only Colonia Real Estate's net profit of €47.3m, was below our €53.3m estimate, due to lower IFRS valuation gains of €61.5m against our estimate of €72.4m. This suggests operational costs lower than anticipated, as the €11m shortfall in non-cash IFRS adjustments only results in a €6m shortfall in net profits. Operating results hence had come in ahead of our estimates.

More positive outlook CRE remains optimistic for 2007 and raises its outlook for net profits conservatively to 'at least' €62m–€65m. In fact, the group sees no change in banks' willingness to provide financing, expects strong growth in asset management and foresees a substantial reduction of the current vacancy rate of 15.5% in its residential portfolio, chiefly as renovation works would end in September 2007. This should also boost asset values further from the current level.

Strong increase in balance sheet total CRE's balance sheet total rose to €1.06bn at the end of H1 2007, up from €420m. Despite the strong increase, the equity ratio rose to 30% from 23%. This has been achieved by the increase in capital and the increase in asset values. Overall equity trebled to €319m from €100m. This assumes a NAV of around €380m, including deferred taxes. As with Deutsche Euroshop and Vivacon, we expect CRE to dissolve some of its deferred tax items in Q3 2007. The company calculates its diluted EPS at €1.95 by the end of H1 2007.

We remain bullish on CRE We believe that CRE is on track to beat its own 2007 estimates. It should be noted that these do not include potential €10m–€20m in pre tax profits as a result of the dissolution of its deferred tax liabilities. In addition, we assume that a further valuation gain should be achieved, once the vacancy rates in its residential portfolio are reduced, following the end of the renovation measures.

Key data

	2004	2005	2006	2007E	2008E	2009E
Sales (€m)	0.0	35,153	85,699	164,821	259,548	277,803
EBIT IFRS (€m)	0.0	12,926	51,676	148,590	145,794	156,090
EBIT (€m)	0.0	4,506	8,830	43,022	95,321	103,088
EPS as rep. (€)	n.a.	1.89	1.93	3.92	3.79	3.26
EPS adj. (€)	0.00	1.89	1.93	3.92	3.79	3.26
NAVPS (€)	0.00	10.82	8.38	20.82	22.95	23.51
DPS (€)	n.a.	0.00	0.00	0.00	0.00	0.00
P/NAV (x)	n.a.	0.6	3.9	1.3	1.2	1.2
P/E (x)	n.a.	3.3	16.9	7.2	7.4	8.6
Div. Yield	n.a.	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Gearing (x)	n.a.	2.4	1.7	1.8	1.9	1.5
Net debt /EBITDA (x)	n.a.	17.5	19.1	16.3	9.5	8.9

Source: Commerzbank Corporates & Markets

Buy
(unchanged)

TP €45

(unchanged)

CP €28.05

(Close 14 August 2007)

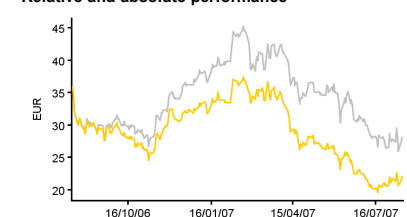
Expected performance	60.4%
Volatility	46.4%
Risk adjusted performance	1.2
Bloomberg / Reuters:	KBU GY, KBUG.DE
Market cap (€m)	631,826
EV (€m)	1,333,752
Shares outstanding (m)	22,525
Free float	100.0%
Dly trading vol(last 3m) (€m)	2.9
Sales CAGR 06A-09E	48.0%
EBIT CAGR 06A-09E	126.9%
EPS CAGR 06A-09E	19.0%

Changes in estimates

	2007o	2007n	2008o	2008n
Sales	164,821	-	259,548	-
EBIT	47,322	43,022	97,341	95,321
EPS	3.63	3.92	5.00	3.79

Source: Commerzbank Corporates & Markets

Relative and absolute performance



Source: Bloomberg

Next news event:

Major shareholders: Swiss Real Estate AG (38.2%)
Fortman Cline (0.8%)

Sources: Bloomberg, Commerzbank Corporates & Markets, Company data



Analyst

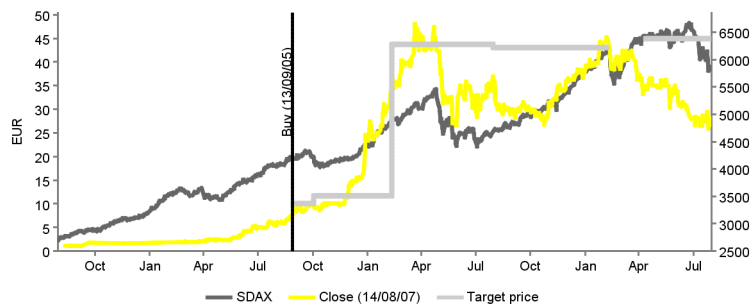
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Colonia Real Estate price chart



Source: Commerzbank Corporates & Markets

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