



Valuation thoughts on CA Immo

27 February 2018

Summary of valuation thoughts (1/2)

- Following Immofinanz' ("IIA") dismal performance since it announced the idea of a merger with CA Immo ("CAI"), we deem a merger senseless and a combination unlikely
 - IIA's NAV has dropped by 27% since announcing the idea in April 2016 while CAI's is up by 13%
 - Therefore, we want CAI to fully focus on their growth agenda and ignore the merger idea
 - Andreas Quint's appointment to the management board adds a wealth of real-estate and transaction experience to CAI, but also provides an opportunity to reassess CAI's strategy
- We expect CAI to continue delivering value to shareholders by:
 - Ending the nonsensical merger discussions with IIA and selling it's stake in the company
 - Executing the existing development program
 - Acquiring high-yielding properties, as achievable in CEE
 - Realising the true value of the German residential landbank by obtaining development permits, using local partnerships to accelerate the process
 - Actively managing the standing portfolio to realize profits and strengthen cash flow
 - Realising the enormous reversionary potential in expiring rental contracts
 - Returning capital should LTV remain below 40%

Summary of valuation thoughts (2/2)

- CAI has developed an exceptionally attractive growth plan exploiting its existing landbank and capitalizing on the strong demand for prime office real estate in Germany's hot spots (Berlin, Munich, Frankfurt) as well as core capital cities in CEE (Prague, Warsaw, Bucharest and Budapest)
 - Modelling out the existing and communicated development program and assuming 1/3 of completed buildings are sold upon completion results in an increase in post-tax FFO1 from €84m in 2017E to €128m in 2019E and to €163m in 2022
 - Selling 33% of completed developments adds profits of c. €50m per year
 - Further value sits in the massive residential landbank of more than 900k sqm in / around Munich
 - The limited existing LTV in CAI combined with cash profits from selling developments results in low financial leverage despite the significant growth agenda – this will enable FFO accretive acquisitions and/or return of capital to shareholders
 - Lastly, the significant existing reversionary potential in CAI's portfolio will drive above CPI rent performance
- Given this strong fundamental growth trajectory, we see a share price target for CAI of at a minimum €32

FFO1 growth: existing development programme drives doubling of FFO1 in coming 5-6 years

<i>in €m, unless stated</i>	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	Change	CAGR
Rental income total	166	183	199	235	262	283	303	323	343	370	205	9%
o/w existing assets	166	183	199	213	223	228	234	239	244	249	83	5%
o/w pipeline	0	0	0	23	38	54	70	85	99	122	122	n.m.
pipeline % of total	0%	0%	0%	10%	15%	19%	23%	26%	29%	33%	33%	
Funds from operations 1 (FFO1)¹	92	84	87	128	137	149	163	177	191	217	125	10%
o/w existing assets	92	84	88	116	115	116	118	122	125	133	42	4%
o/w pipeline	0	0	(1)	12	21	33	44	55	66	83	83	n.m.
pipeline % of total	0%	0%	-1%	10%	16%	22%	27%	31%	35%	38%	38%	
LTV	31.3%	28.8%	36.6%	36.4%	34.7%	31.9%	28.5%	24.9%	21.5%	15.8%	-15.4%	
Total assets ²	4,309	4,679	4,908	5,445	5,731	5,915	6,118	6,333	6,373	6,736	2,427	5%
Cumulative revaluations ³	66	123	203	297	397	505	604	706	813	916		
Net debt	1,069	1,076	1,589	1,734	1,740	1,656	1,518	1,350	1,183	878	(191)	-2%

● Key assumptions:

- **Timing of development programme:** development commences in 2018, and is completed by 2025
- **Pipeline volume:** €4.1b as per CAI guidance
- **Keep vs. sell:** 33% of developed properties are sold (resulting disposal profits not included in FFO1)
- **Rent development:** rent within existing contracts grows with highly conservative CPI (c. 2% assumed)
- **Development economics:** 5.95% rental yield on cost, 17.5% development profit, 20% vacancy
- **Development financing:** ~70% LTV during the construction phase, ~65% LTV upon completion, 2.00% cost of new debt
- **Dividends / return of capital to shareholders:** normal dividend representing ~35% of net income

1) Petrus Advisers definition of FFO1. It is identical to CAI's definition except Petrus Advisers deducts relevant cash taxes in calculating FFO1.

2) Includes revaluation results.

3) Net of revaluation gains on sold assets.

Summary valuation approach

Item	Value / Share ⁽¹⁾	Comment
Standing portfolio	€22.5	<ul style="list-style-type: none"> 17.5x forward FFO1 multiple applied to future years' FFO 1 and discounted at 8%
Pipeline (sold)	€4.5	<ul style="list-style-type: none"> 10x forward FFO multiple applied to cash profits from selling c. 33% of completed development pipeline properties Future valuation dates discounted at 8%
Residential landbank	€2.5	<ul style="list-style-type: none"> Assumed value (NPV) of residential landbank of c. €250/sqm
Properties HFT	€0.4	<ul style="list-style-type: none"> Book value of properties held-for-trading
Dividends	€2.0	<ul style="list-style-type: none"> NPV (8%) of future dividends Payout ratio of c. 35% of net income
IIA stake	€1.1	<ul style="list-style-type: none"> Current market value
Total	€33.0	

(1) Based on valuation date for Standing Portfolio and Sold Pipeline properties of 2020 and discounted at 8%.

Significant growth results in SotP valuation of min. €32 / share

Sum-of-the-parts valuation

	Input	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Standing portfolio									
Valuation date	27/02/2018								
FFO I - standing portfolio, €m		84	87	128	137	149	163	177	191
FFO I / share		€0.90	€0.93	€1.37	€1.46	€1.60	€1.75	€1.90	€2.05
Multiple	17.5x	17.5x	17.5x	17.5x	17.5x	17.5x	17.5x	17.5x	17.5x
Implied equity value / share			€24.06	€25.62	€27.95	€30.54	€33.17	€35.82	€40.61
Discount factor	8.0%		0.94	0.87	0.80	0.74	0.69	0.64	0.59
Implied PV / share			€22.54	€22.23	€22.46	€22.72	€22.85	€22.84	€23.98
Sold development assets									
Cash profits after tax, €m		0	0	51	47	52	55	54	55
Cash profits after tax / share		€0.00	€0.00	€0.54	€0.50	€0.56	€0.59	€0.58	€0.59
Multiple	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x
Implied equity value / share			€5.42	€5.00	€5.61	€5.85	€5.76	€5.88	€7.71
Discount factor	8.0%		0.94	0.87	0.80	0.74	0.69	0.64	0.59
Implied PV / share			€5.08	€4.34	€4.51	€4.35	€3.97	€3.75	€4.55
Adjustments to asset values									
Value of residential landbank ¹ /share			€2.50	€2.50	€2.50	€2.50	€2.50	€2.50	€2.50
Properties held for trading / share			€0.38	€0.38	€0.38	€0.38	€0.38	€0.38	€0.38
Total adjustments to asset values			€2.88	€2.88	€2.88	€2.88	€2.88	€2.88	€2.88
Dividends									
Dividend / share			€0.63	€0.65	€0.96	€1.02	€1.12	€1.22	€1.33
Cumulative dividends / share			€0.63	€1.28	€2.24	€3.27	€4.39	€5.61	€6.93
Discount factor	8.0%		0.98	0.91	0.84	0.78	0.72	0.67	0.62
PV dividend / share			€0.62	€0.59	€0.81	€0.80	€0.81	€0.82	€0.82
PV cumulative dividends / share			€0.62	€1.21	€2.02	€2.82	€3.63	€4.45	€5.27
Immofinanz stake									
IIA shares held, k		54,806	54,806	54,806	54,806	54,806	54,806	54,806	54,806
IIA share price	€1.93	€1.93	€1.93	€1.93	€1.93	€1.93	€1.93	€1.93	€1.93
IIA stake market value, €m		106	106	106	106	106	106	106	106
Value IIA stake / CAI share			€1.13	€1.13	€1.13	€1.13	€1.13	€1.13	€1.13
Present value of equity			€32.26	€31.80	€33.00	€33.91	€34.46	€35.05	€37.82
Undiscounted value			€33.74	€35.54	€39.44	€43.30	€46.95	€50.94	€58.88
Difference			4.6%	11.8%	19.5%	27.7%	36.2%	45.3%	55.7%

Sensitivity to multiple²

		Valuation date						
		2018	2019	2020	2021	2022	2023	2024
FFO multiple	16.0x	€30.3	€29.9	€31.1	€32.0	€32.5	€33.1	€35.8
	16.5x	€31.0	€30.5	€31.7	€32.6	€33.2	€33.7	€36.4
	17.0x	€31.6	€31.2	€32.4	€33.3	€33.8	€34.4	€37.1
	17.5x	€32.3	€31.8	€33.0	€33.9	€34.5	€35.1	€37.8
	18.0x	€32.9	€32.4	€33.6	€34.6	€35.1	€35.7	€38.5
	18.5x	€33.5	€33.1	€34.3	€35.2	€35.8	€36.4	€39.2
	19.0x	€34.2	€33.7	€34.9	€35.9	€36.4	€37.0	€39.9

Sensitivity to discount rate³

		Valuation date						
		2018	2019	2020	2021	2022	2023	2024
Discount rate	5%	€32.9	€33.3	€35.4	€37.2	€38.7	€40.3	€44.5
	6%	€32.7	€32.8	€34.6	€36.1	€37.2	€38.5	€42.2
	7%	€32.5	€32.3	€33.8	€35.0	€35.8	€36.7	€40.0
	8%	€32.3	€31.8	€33.0	€34.0	€34.5	€35.1	€37.9
	9%	€32.1	€31.4	€32.3	€33.0	€33.3	€33.6	€36.0
	10%	€31.8	€30.9	€31.6	€32.0	€32.1	€32.2	€34.2

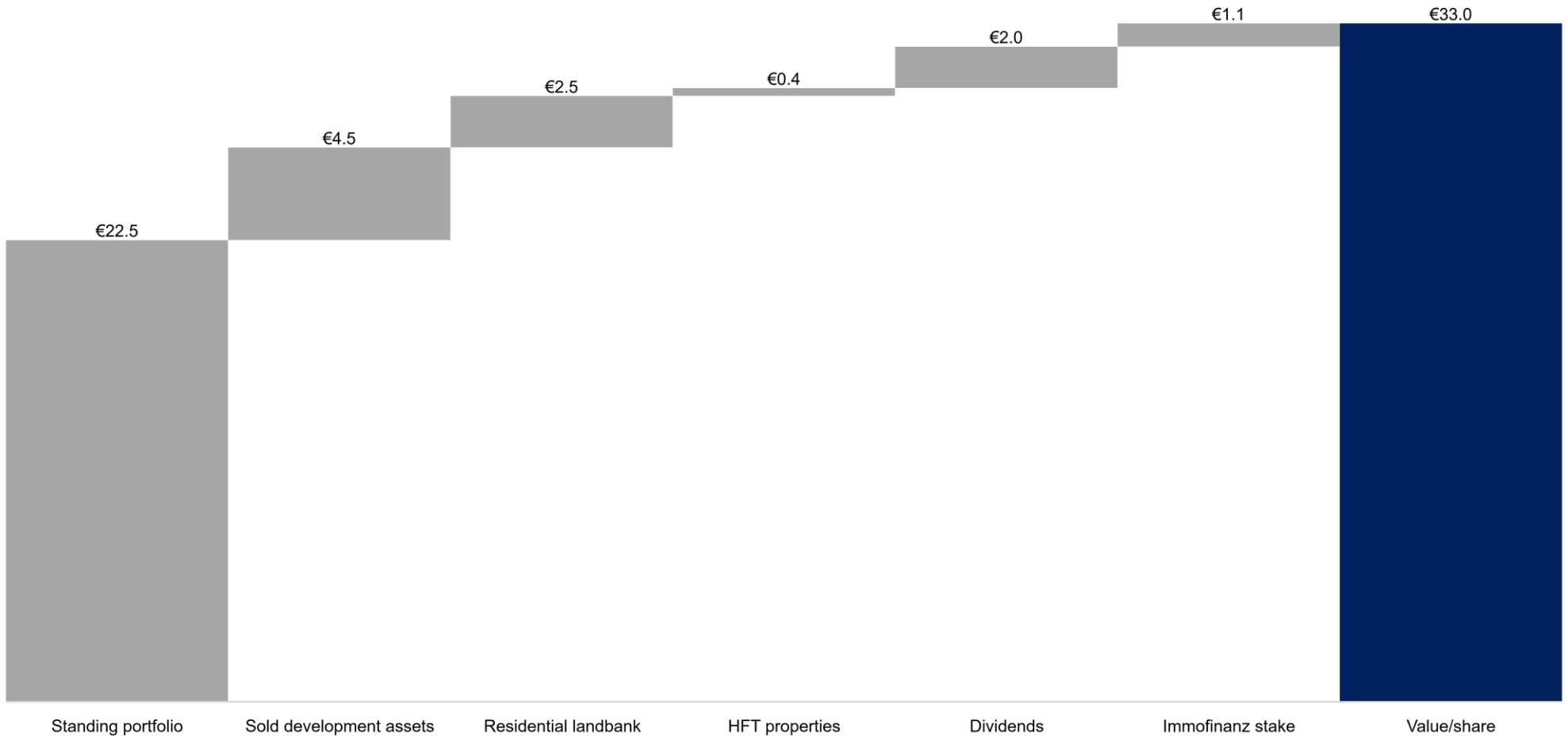
Sensitivity to in-place rent/sqm CAGR

		Valuation date						
		2018	2019	2020	2021	2022	2023	2024
In-place rent/sqm CAGR	0%	€31.2	€30.5	€31.4	€32.2	€32.6	€33.1	€35.8
	1%	€31.7	€31.1	€32.2	€33.0	€33.5	€34.0	€36.7
	2%	€32.3	€31.8	€33.0	€33.9	€34.4	€35.0	€37.8
	3%	€32.8	€32.5	€33.8	€34.8	€35.4	€36.1	€38.9
	4%	€33.3	€33.2	€34.6	€35.8	€36.5	€37.3	€40.2
	5%	€33.9	€33.9	€35.5	€36.8	€37.6	€38.5	€41.5
	6%	€34.5	€34.7	€36.4	€37.8	€38.8	€39.8	€43.0

- Gain on land reflects the assumed NPV of ~€250/sqm related to permitting and development activity using CAI's residential landbank in and around Munich.
- Multiple applied to the standing portfolio only. Assumed discount rate = 8%.
- Assuming the same FFO multiples as stated in the "upside potential" table.

Petrus Advisers view: CA Immo is worth minimum €33/share

Assuming an illustrative valuation in 2020 based on 2021 FFO1 and FFO2; and applying an 8% discount rate



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