

NEWSFLASH

Revaluation boosts NAV of Orco Germany

SUMMARY OF FY 2007 RESULTS

- In 2007, the net profit of Orco Germany (attributable to the group) soared to €57.0m, up from €21.9m in 2006.
- The net gain from value adjustments amounted to €86.4m, compared to €31.5m in 2006.
- The adjusted EBITDA (excluding unrealized revaluation gains and amortization) increased to €14.0m versus only €1.2m in 2006. EBITDA of the development activities was slightly negative (-€0.6m), but EBITDA of the renting portfolio amounted to €14.6m. The main contributor is GSG with €9.5m (only consolidated during the second half of the year). In addition, it includes the realized gain of the Pier 1 building in Duisburg (€2.3m).
- Turnover rose by 8% to €79.9m (€73.8m). The investment portfolio generated rental income of €24.8m (€1.5m). Revenues of the development activities fell to €56.2m (€72.3m).
- Adjusted NAV per share rose to €7.51, an increase of 59% compared to €4.70 as at year-end 2006.
- In 2008, Orco Germany aims to focus on further improvement of the occupancy of the GSG portfolio and the progress of its large development projects in Berlin.

COMMENT

Revaluation gains were the largest single item in the P&L of Orco Germany. The main contributors were GSG, Leipziger Platz and Haus Cumberland. The gain of GSG was €28m. This portfolio was acquired at a yield of appr. 10% and was revalued at a yield of 8.25%. The revaluation of Leipziger Platz of €19.5m was largely (€16m) in the first half of the year. The revaluation of Haus Cumberland of €16m was almost fully (€15m) in the first half.

Rental income of Orco Germany was strongly higher than in 2006, predominantly due to the acquisition of GSG. GSG accounted for rental income of €19.7m for the second half of the year. According to our estimates, this reflects a rent of €5.77/m² (including service charges paid by tenants). Since July, the vacancy rate has been reduced from 32% to 30%. Other financial costs of Orco Germany of €14.6m are to a large extent related to a restructuring of the debt of GSG. The latest revaluation of the GSG portfolio shows an investment value of €30/m², which is only 27% of the replacement value of €1,940/m² based on insurance estimates. The estimated replacement value results in a portfolio value of GSG of €1.6bn. In our view, this figure is more an indication of the quality of the buildings than of potential value gains. Assuming that 90% of the portfolio will be occupied, that the average rent will rise to €7.50/m² and the yield will fall to 6.75%, the investment value of the GSG portfolio is €1bn.

Turnover of the development activities of €6.2m was lower than in the preceding year. However, in 2006 €1.0m out of total turnover of €72.3m was realized in the Czech Republic. In 2007, 143 residential units were delivered and 43 forward purchase contracts were signed.

In December, the Pier 1 office building in Duisburg was divested. Proceeds amounted to €7m, 8% over the latest valuation and reflecting a yield of 5.9%. The deal proves that there is still ample demand for investment property in Germany. In June, the office building in the Singerstrasse was disposed for €4.0m, a gain of €1.6m compared to the acquisition price in 2005. In 2008, Orco Germany intends to continue a programme of selective disposal of assets. This will allow the company to invest in more value creating projects. It expects to start the construction of Haus Cumberland in the current year.

Last week, the first price for the design competition of the Wertheim site at Leipziger Platz was awarded to architects Kleihues + Kleihues. Orco Germany expects to construct 120,000 m² on the site, 50% more than initially anticipated. Of the total space, 55% (66,000 m²) is intended for shopping and entertainment, 30% (36,000 m²) for residential and 15% (18,000 m²) for office space. In addition, there will be 760 parking spaces. The investment in the project is estimated at €300m (excluding land).

The share price of Orco Germany is low, the latest share price of €6.00 being 20% lower than NAV per share of €7.51. In our report of October 2007, we estimated that the value of the company would be €15 per share. By now, it is probable that the increased volume of the Leipziger Platz project will result in even more value creation, although the full value of this investment will become clear only in 2012. Nevertheless, in view of the considerable discount of the share price to their estimated value, we confirm our **'Outperformer'** rating.

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DISCLAIMERS

History recommendation

Date	Previous Recommendation	New Recommendation
15-10-2007	Not Rated	Outperformer

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