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## Austrian listed property groups show solid catch-up potential

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**A**t a time when the gaps between real estate share prices around Europe and reported net asset values have narrowed markedly in many markets, the main Austrian listed real estate groups still exhibit a huge discount, mostly wider than 40%. In our view this is not supported by their operating performance. In the case of residential group *conwert*, with an NAV of almost €16 per share, it has delivered continuously good cash earnings in 2008 and 2009 from both rental income and trading activities. As an integrated full-service real estate firm with its own property management *conwert* shows steadily rising FFO profits which led to a dividend pay-out of 25 cents per share for 2009. 1Q10 numbers were also good; in particular EBIT of its German unit jumped by 30%. Looking at the share price around €9, the discount of more than 40% is too wide, in our view. Its recent takeover bid for Vienna-based *ECO Business* is an additional argument in favour of *conwert*. It buys a €730m office and retail portfolio in Austria and Germany at a 36% discount to NAV.

With a commercial property player like *CA Immo* the picture is not as clear at first sight. It has a portfolio of €3.5bn, of which €2.4bn are investment properties and about €1.0bn in development – including €500m land bank reserves from its German unit *Vivico*. For a valuation, the decisive element is whether to accentuate cash-flow or intrinsic value. Looking at cash-flow, 1Q10 was no highlight: After enor-

mous trading activities last year, rental income fell 8% to €42m. *CA Immo* plans to bolster its income-generating portfolio by value-accretive acquisitions but total 2010 rental income will be at least 8% below 2009. The other side of the coin is very stable occupancy of 92% in the investment portfolio and a solid tenant structure; more than 70% of rental contracts expire after 2013 or are unlimited. Its 1Q10 EBIT made a turnaround to a profit of €21.5m from a loss of €16.9m in 1Q09. NAV per share is stable above €17.50 – meaning it is trading at a very deep discount of almost 50%. With regard to its good development pipeline and the high intrinsic value of its land bank a much lower discount of a maximum 30% would be appropriate.

Turning to *Sparkassen Immobilien*, its real estate portfolio is much more diversified than its peers and offers residential as well as office and retail properties in Germany, Austria and some eastern European countries. At present 40% of rental income comes from Germany, 24% from Austria, and 36% from CEE/SEE. The 2009 figures were impaired by non-cash revaluation losses of almost €100m, referring to the CEE/SEE portfolio but future prospects are more positive. For 2010 and 2011 we expect a strongly rising operating cash-flow to more than €100m in 2011 from €50m now. Its huge *Sun Plaza* (Bucharest) and *Serdika Center* (Sofia) mall projects both opened in 1Q10 and will contribute more than €20m to 2010 rental income and more than

€26m to the 2011 top-line. *Sparkassen Immobilien*'s reported NAV per share is well above €8, and does not reflect the steep jump in cash-flow likely to come through from the two new shopping centres.

The well-known Austrian hotel specialist *Warimpex* has its 21-hotel portfolio located outside Austria, mainly in Czech Republic, Poland, Germany and France. The year 2009 was impaired by severe economic turmoil which quickly and sharply reduced occupancy and room rates and also led to significant revaluation losses, especially in a very weak first half. However its 1Q10 numbers continued the positive trend from the last months of 2009: occupancy rates and bookings for conferences gained momentum again. After our recent discussions with management we feel sure the positive development will further improve; hospitality is an early-stage indicator in any economic recovery. With regard to the recovery potential of the hotel business and our mid-term cash-flow projections including the new budget hotels, we would not argue for a 100% share price potential however. All these companies and several other German commercial and residential peers will join our yearly investor conference on 14 September at Hilton Frankfurt. For free registration visit [www.src-research.de/forum](http://www.src-research.de/forum). ■ ss

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