

28 | Aug | 2013

<b>Price (Euro)</b>	<b>4.64</b>			
52 weeks range	5.14 / 4.31			
<b>Key Data</b>				
Country	Austria			
Industry	Real Estate			
Market Segment	Prime Market			
ISIN	AT0000652250			
WKN	902388			
Symbol	T1L			
Reuters	SIAG.VI			
Bloomberg	SPI:AV			
Internet	www.simmoag.at			
Reporting Standard	IFRS			
Fiscal Year	31/12			
Founded	1986			
IPO	1987			
Market Cap (EUR million)	316.1			
Number of shares (million)	68.1			
Free Float (approx.)	81%			
Free Float MarketCap (Euro million)	256.0			
CAGR (net profit 11-14e)	12.4%			
<b>Multiples</b>				
	<b>2011</b>	<b>2012</b>	<b>2013e</b>	<b>2014e</b>
Market cap/ Revenues-Ratio	1.5	1.6	1.6	1.7
P/E-Ratio	15.8	13.0	12.4	11.1
Dividend Yield	2.2%	3.2%	3.2%	3.2%
<b>Key Data per Share (Euro)</b>				
	<b>2011</b>	<b>2012</b>	<b>2013e</b>	<b>2014e</b>
<b>Earnings per Share (EpS)</b>	<b>0.29</b>	<b>0.36</b>	<b>0.37</b>	<b>0.42</b>
Dividends per Share (DpS)	0.10	0.15	0.15	0.15
Book Value per Share (BVpS)	6.86	6.94	7.17	7.43
NAV per share	8.70	9.20	9.38	9.57
FFO per share	0.42	0.48	0.50	0.51
<b>Financial Data (Euro '000)</b>				
	<b>2011</b>	<b>2012</b>	<b>2013e</b>	<b>2014e</b>
<b>Revenues</b>	<b>207,812</b>	<b>196,676</b>	<b>193,160</b>	<b>190,573</b>
Rental income	125,943	118,535	114,979	112,679
Net revaluation result	146	16,756	10,000	6,500
<b>Operating cash profit (EBITDA)</b>	<b>101,406</b>	<b>98,819</b>	<b>95,445</b>	<b>96,130</b>
<b>Operating Profit (EBIT)</b>	<b>92,286</b>	<b>106,810</b>	<b>96,367</b>	<b>94,340</b>
Pre-tax profit (EBT)	29,643	32,198	33,997	37,295
<b>Net profit after minorities</b>	<b>20,034</b>	<b>24,302</b>	<b>25,425</b>	<b>28,421</b>
Shareholders' Equity	467,230	472,955	488,163	506,366
RoE after tax	4.2%	5.2%	5.3%	5.7%
<b>Financial Calendar</b>				
<b>SRC Forum Financials &amp; Real Estate</b>		<b>September 4, 2013</b>		
3Q 2013		November 21, 2013		
<b>Main Shareholders</b>				
Vienna Insurance Group		10%		
Erste Bank Group		10%		
<b>Analyst</b>				
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## S IMMO reports another hike in net profit for 1H and continues profitable asset sales - Buy!

Yesterday, Vienna-based real estate company S IMMO released its semi-annual report 2013 and gave more details in the course of an analysts' conference call.

The management was able to report Euro 100.5m of total income for the first six months after Euro 102.2m in 1H 2012, marking a slight decrease of 1.7%. Taking into account that S IMMO's portfolio shrunk by about 5% via profitable asset sales within the first half of the year, this shows the progress in cutting back both overhead- and property-related costs.

EBITDA remained almost constant at Euro 49.9m after Euro 50.9 in the first half of 2012. Despite a smaller EBIT of Euro 48m (-5.9%), both EBT and net income before minorities were up by 10.7% and 6.0%, respectively. Net income after minorities also rose slightly from Euro 14.3m to Euro 14.5m. Trading revenues from the sale of assets amounted to Euro 83.8m after the first six months, bringing the company in a very favourable situation to reach its Euro 100m-goal regarding asset sales for the full year.

We welcome that progress as it allows S IMMO to sell very selectively at attractive prices within the second half of the year. Property disposals yielded a net profit contribution of Euro 2.4m in 1H 2013. The group sold a total of 5 properties in Vienna, Berlin and Bremen.

Furthermore, the firm managed to lift the occupancy levels at Bukarest-based Sun Offices (c. 85%) and Sofia-based Serdika Offices (c. 52%) despite a challenging local market. The property portfolio comprised 214 properties with a market value of Euro 1.8bn, while average occupancy remained at about 90%. Taking the dividend guidance of 15 Cents per share (3.2% dividend yield) for 2013 into account, we regard the share as a top pick in its sector, particularly after the successful cost cutting measures and the recent operating success in CEE. Furthermore, we like the group's active strategy regarding profitable sales transactions as the group managed to continuously create additional value via sales above book values. Moreover, the management launched another two repurchase programmes both for participating certificates and the share. The programme for the participation certificates is open-ended, while the stock programme allows the repurchase of up to 3% until 18 December 2013. This should provide further support to the market prices of both securities.

**We stick to our Buy recommendation for the S IMMO share after better than expected 1H results and confirm our latest price target of Euro 7.00, which implies an upside of 33%.**

## SWOT Analysis

### Strengths

- ▶ The firm has a well diversified portfolio with a total of c. 200 properties and a rental space of ~ 1,300k sqm, amounting to a value of Euro 1.8bn. The properties are located across eight countries. A focus is on Germany and Austria (60% of portfolio) while the other countries are located in CEE and SEE (approx. 20% each), thus geographical diversification is high. Furthermore the portfolio is well diversified in terms of its type of use. Residential (22%), office (39%), retail (26%) and hotels (14%) are covered, thus all major types are under one roof. In addition, all shares of each sector are quite balanced. However we assume that this kind of portfolio will attract more the general equity investors than specialized investors that might be more focused on "Pure-Plays".
- ▶ The present share price level offers a huge discount of almost 50% to the EPRA NAV of Euro 9.31 as of 30 June 2013 (year-end 2012: Euro 9.18).
- ▶ The occupancy rate is still high after the trading volumes of the last two years at very comfortable 91% providing a stable rental income (yield 6.9%) while the LTV came down to 54% and is supposed to reduce to 50% until year-end 2014.
- ▶ Two of the largest financial services firms in Austria, Erste Bank and Vienna Insurance, are the largest shareholders accounting for 10% each of the shares. Both shareholders have a positive effect on the business
- ▶ Granulated tenant structure. The top 25 tenants count only for 40% of yearly rental income. Furthermore the majority of rental contracts are long-term. Both shopping centers Sun and Serdika in Romania and Bulgaria are now fully let (the shopping space)

### Weaknesses

- ▶ Although S IMMO is present on the stock market since 1987, the awareness for the success story at the equity markets is still not that high in our view, as the market cap is split between the S IMMO share and the two participation certificates.
- ▶ There are participation certificates in the financing structure with a hybrid character between equity and liability. This form of financing is unusual to many international investors. Thus we liked the plan of S IMMO to tender these papers into normal equity stock shares until year-end 2011 in three steps. Unfortunately there was no 75% majority for this proposal on AGM. Now S IMMO aims to buy back a larger share of participating certificates. The plan is to buy back ca. 15% of circulating participating certificates.

### Opportunities

- ▶ The repurchasing program of participating certificates lowers the share of payments to certificate holders and offers the opportunity to pay out a dividend. First dividend payment of Euro 0.10 was on 15 June 2012. We expect the same dividend to follow in 2013.
- ▶ S IMMO realized a huge premium on their disposals of some 5% to 10% in 2012. In contrast to that the stock trades with a discount of almost 50% to its EPRA NAV.
- ▶ The firm already made some steps to bring down LTV from near 60% levels to now 53%. We welcome the target to bring LTV down to about 50% in the next years.

### Threats

- ▶ Austria lost its S&P AAA rating, mainly due to its high engagement in CEE and SEE. Due to higher restrictions for credits in those regions, higher refinancing costs and higher equity requirements and stricter covenants are very likely to occur. S IMMO works on reducing LTV and overall exposure in this region. The firm also made some good steps to improve tenant structure and gain new tenants in Sun and Serdika office properties.
- ▶ S IMMO faced unpaid rents at Sun Plaza and Serdika Center in the past, but managed a significant improvement here. We also welcome new rental contracts with Abbott, Merck and Atos in 4Q 2012. Additional rental contracts were closed in 1H 2013.

**P&L Account for S IMMO AG**

	2008	2009	2010	2011	2012	2013e	2014e	CAGR '11 - '14e
<b>31/12 IFRS (Euro '000)</b>								
<b>Revenues</b>	<b>125,682</b>	<b>153,555</b>	<b>174,943</b>	<b>207,812</b>	<b>196,676</b>	<b>193,160</b>	<b>190,573</b>	<b>-2.8%</b>
└ thereof rental income	85,737	87,553	103,992	125,943	118,535	114,979	112,679	
└ thereof revenues from service charges	23,474	29,105	32,640	41,257	36,170	35,643	34,931	
└ thereof revenues from hotel operations	16,471	36,897	38,311	40,612	41,971	42,538	42,963	
Other operating income	2,587	8,246	4,973	7,737	6,860	6,929	6,097	<b>-7.6%</b>
Expenses directly attributable to properties	-45,207	-61,192	-70,095	-76,982	-67,037	-62,140	-60,650	
<i>Gross margin property segment</i>	<i>58.6%</i>	<i>47.5%</i>	<i>48.7%</i>	<i>54.0%</i>	<i>56.7%</i>	<i>58.7%</i>	<i>58.9%</i>	
Hotel operating expenses	-12,575	-29,701	-29,617	-31,576	-32,112	-31,903	-31,793	
<b>Gross operating profit hotels (GOP)</b>	<b>3,896</b>	<b>7,196</b>	<b>8,694</b>	<b>9,036</b>	<b>9,859</b>	<b>10,634</b>	<b>11,170</b>	
<i>Gross margin within hotel segment</i>	<i>23.7%</i>	<i>19.5%</i>	<i>22.7%</i>	<i>22.2%</i>	<i>23.5%</i>	<i>25.0%</i>	<i>26.0%</i>	
<b>Revenues less directly attributable expenses</b>	<b>70,487</b>	<b>70,908</b>	<b>80,204</b>	<b>106,991</b>	<b>104,387</b>	<b>106,045</b>	<b>104,228</b>	
<i>Total Gross margin</i>	<i>56.1%</i>	<i>46.2%</i>	<i>45.8%</i>	<i>51.5%</i>	<i>53.1%</i>	<i>54.9%</i>	<i>54.7%</i>	
<b>Net operating income (NOI)</b>	<b>67,900</b>	<b>62,662</b>	<b>75,231</b>	<b>99,254</b>	<b>97,527</b>	<b>99,117</b>	<b>98,130</b>	
<i>NOI-margin</i>	<i>54.0%</i>	<i>40.8%</i>	<i>43.0%</i>	<i>47.8%</i>	<i>49.6%</i>	<i>51.3%</i>	<i>51.5%</i>	
<b>Net Gains on property disposal</b>	<b>8,318</b>	<b>1,900</b>	<b>9,879</b>	<b>11,584</b>	<b>10,840</b>	<b>4,500</b>	<b>6,700</b>	<b>-16.7%</b>
Management expenses	-19,594	-19,533	-18,650	-17,169	-16,408	-15,100	-14,798	
└ thereof personnel expenses	n.s.	-4,517	-5,726	-6,581	-6,533	-5,738	-5,623	
<b>EBITDA</b>	<b>59,211</b>	<b>53,275</b>	<b>71,433</b>	<b>101,406</b>	<b>98,819</b>	<b>95,445</b>	<b>96,130</b>	<b>-1.8%</b>
<i>EBITDA-margin</i>	<i>47.1%</i>	<i>34.7%</i>	<i>40.8%</i>	<i>48.8%</i>	<i>50.2%</i>	<i>49.4%</i>	<i>50.4%</i>	
Depreciation	-4,737	-9,113	-10,054	-9,266	-8,765	-9,079	-8,290	
Property Revaluation	-30,682	-97,238	-833	146	16,756	10,000	6,500	
<b>Operating profit (EBIT)</b>	<b>23,792</b>	<b>-53,076</b>	<b>60,546</b>	<b>92,286</b>	<b>106,810</b>	<b>96,367</b>	<b>94,340</b>	
<i>EBIT-margin</i>	<i>18.9%</i>	<i>-34.6%</i>	<i>34.6%</i>	<i>44.4%</i>	<i>54.3%</i>	<i>49.9%</i>	<i>49.5%</i>	
<b>EBIT-profit without revaluation result</b>	<b>54,474</b>	<b>44,162</b>	<b>61,379</b>	<b>92,140</b>	<b>90,054</b>	<b>86,367</b>	<b>87,840</b>	<b>-1.6%</b>
Net financial result	-9,552	-35,541	-41,201	-51,458	-61,803	-51,470	-47,245	
Participating certificates expenses (hybrid capital)	-6,442	11,161	-10,222	-11,185	-12,809	-10,900	-9,800	
<b>Earnings before tax (EBT)</b>	<b>7,798</b>	<b>-77,456</b>	<b>9,123</b>	<b>29,643</b>	<b>32,198</b>	<b>33,997</b>	<b>37,295</b>	
<i>EBT margin</i>	<i>6.2%</i>	<i>-50.4%</i>	<i>5.2%</i>	<i>14.3%</i>	<i>16.4%</i>	<i>17.6%</i>	<i>19.6%</i>	
Income tax expense	-2,072	-1,412	-6,989	-8,398	-6,170	-6,221	-6,900	
<i>Tax rate</i>	<i>27%</i>	<i>n.m.</i>	<i>77%</i>	<i>28%</i>	<i>19%</i>	<i>18%</i>	<i>19%</i>	
<b>Net profit</b>	<b>5,726</b>	<b>-78,868</b>	<b>2,134</b>	<b>21,245</b>	<b>26,028</b>	<b>27,775</b>	<b>30,395</b>	
Minorities	87	309	-291	-1,211	-1,726	-2,350	-1,974	
<b>Net profit after minorities</b>	<b>5,813</b>	<b>-78,559</b>	<b>1,843</b>	<b>20,034</b>	<b>24,302</b>	<b>25,425</b>	<b>28,421</b>	<b>12.4%</b>
<i>Return on sales</i>	<i>4.6%</i>	<i>-51.2%</i>	<i>1.1%</i>	<i>9.6%</i>	<i>12.4%</i>	<i>13.2%</i>	<i>14.9%</i>	
Number of shares (in million)	68.1	68.1	68.1	68.1	68.1	68.1	68.1	
<b>Earnings per Share (EPS) in Euro</b>	<b>0.09</b>	<b>-1.15</b>	<b>0.03</b>	<b>0.29</b>	<b>0.36</b>	<b>0.37</b>	<b>0.42</b>	
Dividends per Share (DPS) in Euro	0.00	0.00	0.00	0.10	0.15	0.15	0.15	
Book Value per Share (BVPS) in Euro	8.47	7.03	7.07	6.86	6.94	7.17	7.43	
Total assets	2,144,585	2,235,196	2,256,163	2,175,378	2,013,382	1,932,847	1,874,861	<b>-4.8%</b>
Shareholders' equity (after dividend payment)	576,998	479,003	481,272	467,230	472,955	488,163	506,366	
Shareholders' equity incl. participating certificates	863,877	740,661	739,092	698,027	695,438	713,163	731,366	
Equity ratio without minorities with hybrid capital	40%	33%	33%	32%	35%	37%	39%	
Return on Equity (RoE)	1.0%	-14.9%	0.4%	4.2%	5.2%	5.3%	5.7%	
<b>Key ratios &amp; figures</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013e</b>	<b>2014e</b>	
<b>Growth rates in %</b>								
Revenues	31.1%	22.2%	13.9%	18.8%	-5.4%	-1.8%	-1.3%	
EBITDA	n.s.	-10.0%	34.1%	42.0%	-2.6%	-3.4%	0.7%	
EBIT	n.s.	-323.1%	-214.1%	52.4%	15.7%	-9.8%	-2.1%	
EBT	n.s.	-1093.3%	-111.8%	224.9%	8.6%	5.6%	9.7%	
Net profit after minorities	n.s.	-1477.4%	-102.7%	895.5%	22.5%	6.7%	9.4%	
<b>Margins in %</b>								
EBITDA	47.1%	34.7%	40.8%	48.8%	50.2%	49.4%	50.4%	
EBIT	18.9%	-34.6%	34.6%	44.4%	54.3%	49.9%	49.5%	
EBT	6.2%	-50.4%	5.2%	14.3%	16.4%	17.6%	19.6%	
<b>Expense ratios in %</b>								
Depreciation to sales	-3.8%	-5.9%	-5.7%	-4.5%	-4.5%	-4.7%	-4.4%	
Tax rate	26.6%	n.m.	76.6%	28.3%	19.2%	18.3%	18.5%	
<b>Profitability in %</b>								
Profit margin	4.6%	-51.4%	1.2%	10.2%	13.2%	14.4%	15.9%	
Return on equity (RoE) after tax	1.0%	-14.9%	0.4%	4.2%	5.2%	5.3%	5.7%	
Return on Assets (RoA)	2.0%	-2.1%	1.8%	3.2%	3.8%	4.1%	1.6%	
Return on Investment (RoI)	0.3%	-3.5%	0.1%	1.0%	1.3%	1.4%	1.6%	
<b>Valuation</b>								
P/E-ratio	57.30	-4.24	180.74	16.63	13.71	13.10	11.72	
P/E-ratio (historical share price by year-end)	25.08	-4.31	195.15	-	-	-	-	
P/S-ratio	2.65	2.17	1.90	1.60	1.69	1.72	1.75	
Price/BVpS (PBV)	0.58	0.70	0.69	0.71	0.70	0.68	0.66	
Dividend yield in %	0.0%	0.0%	0.0%	2.0%	3.1%	3.1%	3.1%	
EV/Sales	10.7	11.3	10.8	9.1	9.8	9.9	0.0	
EV/EBITDA	22.6	32.6	26.5	18.7	19.4	20.1	0.0	
<b>Data per share</b>								
Share price by year end	2.14	4.97	5.28	4.52	-	-	-	
Number of shares in m	68.1	68.1	68.1	68.1	68.1	68.1	68.1	
EPS	0.09	-1.15	0.03	0.29	0.36	0.37	0.42	
DPS	0.00	0.00	0.00	0.10	0.10	0.10	0.10	
BVPS	8.47	7.03	7.07	6.86	6.94	7.17	7.43	
FFO per share	0.50	0.32	0.27	0.42	0.48	0.50	0.51	

## SRC Research

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Rating Chronicle	Date	Rating	Former Price	Former Target
S IMMO	23 May 2013	Buy	4.89 €	7.00 €
S IMMO	26 March 2013	Buy	4.77 €	7.00 €
S IMMO	25 February 2013	Buy	4.67 €	6.75 €
S IMMO	23 November 2012	Buy	4.90 €	6.50 €
S IMMO	29 October 2012	Buy	4.86 €	6.50 €
S IMMO	23 August 2012	Buy	4.63 €	6.50 €
S IMMO	25 May 2012	Buy	4.25 €	6.50 €
S IMMO	23 March 2012	Buy	4.35 €	7.00 €
S IMMO	31 January 2012	Buy	4.22 €	7.00 €

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### Please note:

The S IMMO AG share price mentioned in this report is the closing price of 27 August 2013. S IMMO mandated SRC Research for covering the S IMMO share.

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