

CR Capital Real Estate AG

Germany / Real Estate
 Primary exchange: Frankfurt
 Bloomberg: CRZ GR
 ISIN: DE000A0WMQ53

Initiation of Coverage

RATING
BUY

PRICE TARGET
€2.10

Return Potential **122.0%**
 Risk Rating **High**

WELL-STOCKED PROJECT PIPELINE IN AN ATTRACTIVE MARKET

CR Capital Real Estate AG focuses on the development of residential and commercial real estate properties in Berlin. The investment focus is on building plots in central areas and other attractive locations of Berlin. The company's current development pipeline comprises projects with a total floor area of 29,268 m². Due to the completion and anticipated sale of two development projects, CR Capital Real Estate expects FY 2014E net income to range between EUR1.0m and EUR1.2m. We initiate coverage with a EUR2.10 price target and a Buy recommendation.

Focus on highly attractive regional real estate market In the coming years, an increasingly tight market situation for apartments and houses especially in Germany's capital (CR Capital Real Estate's focus) is forecast due to the low number of newly built real estate properties and the increase in Berlin's population. This should help CR Capital Real Estate AG successfully develop its residential real estate projects. Prospects are also promising with regard to potential buyers of the firm's projects. Based on the dynamic market activity especially in the small-sized segment and growing interest from foreign investors in stable, safe German residential properties, sustained high demand is forecast for the next years.

Twin-track strategy CR Capital Real Estate's business can be divided into two different segments: develop-and-hold and develop-and-sell projects. The company's recurring revenue stream from its rental portfolio covers a large part of annual fixed costs, whereas the second business segment adds significant value through the firm's project development activities in one of Germany's most attractive regional real estate markets.

Well-stocked development project pipeline CR Capital Real Estate's current project pipeline will create significant revenue streams in the current fiscal year and subsequent years. The company has already begun to secure additional projects for the years beyond 2017E.

FINANCIAL HISTORY & PROJECTIONS

	2012A	2013A	2014E	2015E	2016E	2017E
Revenue (€m)	8.62	13.51	14.03	17.92	23.66	31.97
Y-o-y growth	n.a.	56.7%	3.9%	27.8%	32.0%	35.1%
EBIT (€m)	-2.11	-0.63	1.83	2.61	3.61	5.23
EBIT margin	-24.4%	-4.7%	13.1%	14.6%	15.3%	16.4%
Net income (€m)	-2.53	0.06	1.17	1.85	2.65	3.90
EPS (diluted) (€)	-0.17	0.00	0.06	0.10	0.14	0.21
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-10.43	1.71	4.54	-1.69	-2.72	-3.81
Net gearing	31.8%	39.9%	-1.8%	8.1%	20.5%	33.1%
Liquid assets (€m)	1.04	0.42	4.69	3.00	0.78	0.37

RISKS

Risks include but are not limited to: increasing competition, the company's focus on the residential market in Berlin, and the loss of key personnel.

COMPANY PROFILE

CR Capital Real Estate AG, listed on the Entry Standard of Frankfurter Boerse, is a real estate development company focusing on the metropolitan area of Berlin.

MARKET DATA

As of 7/22/2014

Closing Price € 0.95
 Shares outstanding 18.78m
 Market Capitalisation € 17.77m
 52-week Range € 0.39 / 1.04
 Avg. Volume (12 Months) 19,626

Multiples	2013A	2014E	2015E
P/E	296.7	15.3	9.7
EV/Sales	1.6	1.6	1.2
EV/EBIT	n.a.	12.1	8.5
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2013

Liquid Assets € 0.42m
 Current Assets € 18.54m
 Intangible Assets € 2.72m
 Total Assets € 30.09m
 Current Liabilities € 13.97m
 Shareholders' Equity € 10.66m

SHAREHOLDERS

HAEMATO AG 20.1%
 Free Float 79.9%



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INVESTMENT CASE

INTACT GROWTH PROSPECTS FOR THE GERMAN CAPITAL

In the coming years, an increasingly tight market situation for apartments and houses especially in Germany's capital (CR Capital Real Estate's focus) is forecast due to the low number of newly built real estate properties and the increase in Berlin's population. This should help CR Capital Real Estate AG successfully develop its residential real estate projects. Prospects are also promising with regard to potential buyers of the firm's projects. Based on the dynamic market activity especially in the small-sized segment and growing interest from foreign investors in stable, safe German residential properties, sustained high demand is forecast for the next years.

UNDERLYING RENTAL INCOME REVENUE STREAM TO FINANCE OPERATIONS

CR Capital Real Estate's business can be divided into two different segments: develop-and-hold and develop-and-sell projects. While the firm's development projects add value through its activities in one of Germany's most attractive regional real estate markets, the company's recurring revenue stream from its renting portfolio covers a large part of annual fixed costs. The company's planned expansion of its rental portfolio should close this existing gap, so that the firm will be able to cover all of its fixed costs through rental income. Dependence on external funding will thus be further reduced and debt financing will only be necessary for individual development projects.

WELL-STOCKED DEVELOPMENT PROJECT PIPELINE

CR Capital Real Estate's current project pipeline will create significant revenue streams in the current and subsequent years. Following recently unprofitable years, finalisation (and selling) of the development projects "Hohenzollerndamm" and "Thulestraße" should make 2014E profitable. In subsequent years, we anticipate an increase in sales and earnings through the company's project "Bessemmerstrasse", where 200 residential units with a total floor area of 20,000 m² (!) will be developed and sold in the coming three years. In addition, CR Capital Real Estate has already begun to secure additional development projects for the years beyond 2017E.



SWOT ANALYSIS

STRENGTHS

- **Twin-track strategy** CR Capital Real Estate's business can be divided into two different segments: develop-and-hold and develop-and-sell projects. The company's recurring revenue stream from its rental portfolio covers a large part of annual fixed costs, whereas the second business segment adds significant value through the firm's project development activities in one of Germany's most attractive regional real estate markets.
- **Strong regional network** Since CR Capital group is based in Berlin, it can draw on a detailed knowledge of the local real estate market and a broad network of real estate and financial experts. The company thus has a competitive advantage compared to external investors.
- **Well-stocked development project pipeline** CR Capital Real Estate's current project pipeline will create significant revenue streams in the current fiscal year and subsequent years. The company has already begun to secure additional projects for the years beyond 2017E.

WEAKNESSES

- **Lack of geographical diversification** The company is focused on only one regional market - the metropolitan area of Berlin. Should the Berlin real estate market develop negatively, CR Capital Real Estate would not be able to compensate for this through other regional activities.
- **Short corporate history** With a corporate history of only six years, the company still needs to build up a more consistent track record. In addition, the firm has had a high management board fluctuation in the past.



OPPORTUNITIES

- **The German market is expected to remain attractive** Based on dynamic market activity especially in the small-sized segment and growing interest from foreign investors in stable, safe German residential properties, sustained high demand is forecast for the next years. Moreover, it is not unlikely that current low interest rates will further increase investment activity and real estate prices.
- **Further increase in Berlin's real estate prices** The high attractiveness of the Berlin metropolitan area is forecast to lead to a further increase in population. Since housing completion will remain below the increase in population, demand will further increase creating scope for a further increase in real estate prices.
- **Expansion of rental business** The company is planning to expand its rental portfolio to completely cover its annual fixed costs. Dependence on external funding will be further reduced and debt financing will only be necessary for individual development projects.

THREATS

- **Unfavourable interest rate development** Debt financing could become more expensive if interest rates rise, thus burdening the company's profitability.
- **Development risk** Complications may arise during the development process. These complications could for example result in project delays or lead to higher than anticipated project costs, thus slowing down the pace of completion or burdening the firm's profitability.
- **Increasing competition in project development** Given the attractiveness of Berlin's real estate market, CR Capital Real Estate's future growth could be hampered by increasing competition. Profitability may be squeezed if peers with a stronger financial position or better access to favourable financing conditions start bidding wars over building plots.



VALUATION

We set a price target of EUR2.10 for CR Capital Real Estate AG's shares. We derive this fair value estimate from our DCF valuation model.

DISCOUNTED CASH FLOW ANALYSIS

In order to determine CR Capital Real Estate AG's Weighted Average Cost of Capital (WACC), we use our proprietary multi-factor risk model, which takes company-specific risk factors into account, such as management strength, balance sheet and financial risk, competitive position and company size. We assign a high risk rating to the company.

Our WACC calculation of 7.8% is based on a risk-free rate of 2.0%, a market risk premium of 5.0% and a terminal effective tax rate of 30%. In our DCF model we use a planning period until 2028 (table below only displays figures until 2021 due to layout reasons) and a terminal sales growth rate of 2.0%.

Our DCF analysis suggests a fair market value of EUR39.8m for CR Capital Real Estate AG, or EUR2.12 per share (based on 18.78m outstanding shares).

Figure 1: Valuation

DCF valuation model								
All figures in EUR '000								
	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net sales	14,028	17,925	23,660	31,967	32,897	33,824	34,746	35,662
NOPLAT	1,481	2,062	2,820	4,065	4,173	4,223	4,277	4,349
+ depreciation & amortisation	49	39	43	55	74	80	84	86
Net operating cash flow	1,530	2,101	2,864	4,121	4,247	4,303	4,360	4,435
- total investments (CAPEX and WC)	3,330	-3,596	-5,452	-7,819	-796	-787	-777	-764
Capital expenditures	-35	-45	-59	-80	-82	-85	-87	-89
Working capital	3,365	-3,551	-5,393	-7,739	-714	-703	-690	-675
Free cash flows (FCF)	4,860	-1,496	-2,588	-3,699	3,451	3,516	3,584	3,671
PV of FCF's	4,700	-1,341	-2,152	-2,852	2,468	2,331	2,203	2,093

All figures in thousands	
PV of FCFs in explicit period	19,313
PV of FCFs in terminal period	24,769
Enterprise value (EV)	44,081
+ Net cash / - net debt	-4,253
+ Investments / minority interests	19
Shareholder value	39,848

Fair value per share in EUR		2.10
WACC	7.8%	
Cost of equity	15.9%	
Pre-tax cost of debt	5.0%	
Tax rate	30.0%	
After-tax cost of debt	3.5%	
Share of equity capital	35.0%	
Share of debt capital	65.0%	
Fair value per share in EUR	2.10	

WACC	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
3.8%	5.52	6.16	7.06	8.47	10.91	16.29	37.67
4.8%	3.98	4.28	4.66	5.18	5.93	7.08	9.08
5.8%	3.03	3.19	3.38	3.62	3.94	4.36	4.97
6.8%	2.39	2.48	2.58	2.71	2.87	3.07	3.32
7.8%	1.93	1.99	2.05	2.12	2.21	2.31	2.44
8.8%	1.59	1.63	1.66	1.71	1.76	1.82	1.88
9.8%	1.33	1.35	1.38	1.40	1.43	1.47	1.51
10.8%	1.12	1.14	1.15	1.17	1.19	1.21	1.23

Source: First Berlin Equity Research



BUSINESS MODEL

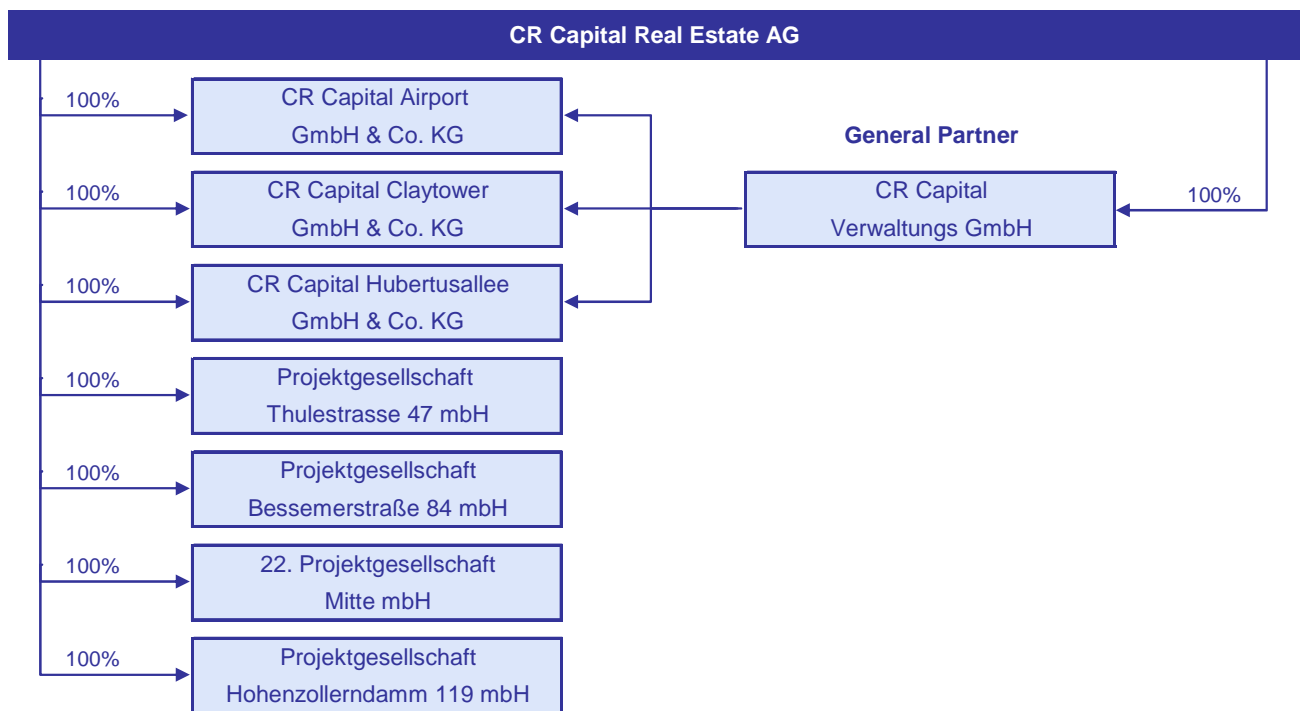
CR Capital Real Estate AG, listed on the Entry Standard of the Frankfurter Boerse, is a real estate development company concentrating on the attractive metropolitan area of Berlin. CR Capital Real Estate AG and its subsidiaries focus on residential and commercial real estate development projects. After completion, the properties are sold to investors or held within the firm’s rental portfolio (“Develop & Hold” and “Develop & Sell” strategy).

In the rental business, the firm holds real estate properties. CR Capital Real Estate’s portfolio currently comprises six properties with a total lettable area of 6,730 m².

In the development business, the company focuses on the attractive and dynamic Berlin real estate market. Since CR Capital group is based in Berlin, it can draw on a detailed knowledge of the Berlin real estate market and a broad network of real estate and financial experts. The company thus has a competitive advantage compared to external investors.

The group comprises of CR Capital Real Estate AG and its subsidiaries.

Figure 2: CR Capital Real Estate AG group structure



Source: CR Capital Real Estate AG

REAL ESTATE PORTFOLIO

DEVELOPMENT PROJECTS

CR Capital Real Estate AG and its subsidiaries focus on the development of residential and commercial real estate properties in the metropolitan area of Berlin. The investment focus is on attractively located building plots in central areas of the Berlin metropolitan area.

The company's current development pipeline comprises four projects with a total floor area of 29,268 m².

Figure 3: Current development projects

Develop and sell portfolio		
Project	Hohenzollerndamm 119	
District	Schmargendorf	
Construction year	2013/2014	
Type of use	Residential	
No of units	17	
Total floor area	1,509 m ²	
Parking spots	17 (underground)	
Project	Thulestraße 47	
District	Pankow	
Construction year	2013/2014	
Type of use	Residential	
No of units	34	
Total floor area	2,844 m ²	
Parking spots	-	
Project	Thulestraße 24	
District	Pankow	
Construction year	2012-2014	
Type of use	Residential	
No of units	54	
Total floor area	4,915 m ²	
Parking spots	33 (underground)	
Project	Bessemerstraße 84	
District	Schöneberg	
Purchase of land	December 2011	
Type of use	Residential	
No of units	200	
Total floor area	20,000m ²	
Parking spots	170 (underground)	

Source: CR Capital Real Estate AG

EXISTING PORTFOLIO

Development and rental of residential and commercial property is another part of CR Capital's business activities.

Based on the existing portfolio's stable cash flow generation, the firm's future strategy includes further expansion of its activities in the rental segment. It is planned to invest in residential and commercial properties in Berlin to completely cover annual fixed costs.

CR Capital Real Estate's portfolio currently comprises six properties with a total lettable area of 6,730 m² (two smaller properties "Lassenstraße" and "Niederbarnimstraße" with a total lettable area of 307 m² not shown in figure 4 below).

Figure 4: Real estate properties fully owned by CR Capital Real Estate AG

Develop and hold portfolio (fully owned)															
<table border="1"> <thead> <tr> <th>Property</th> <th>Hubertusallee 73</th> </tr> </thead> <tbody> <tr> <td>District</td> <td>Grunewald</td> </tr> <tr> <td>Construction year</td> <td>1912</td> </tr> <tr> <td>Type of use</td> <td>Commercial/residential</td> </tr> <tr> <td>Total floor area</td> <td>1,022 m²</td> </tr> <tr> <td> thereof commercial</td> <td>925 m²</td> </tr> <tr> <td>Tenancy rate</td> <td>100%</td> </tr> </tbody> </table>	Property	Hubertusallee 73	District	Grunewald	Construction year	1912	Type of use	Commercial/residential	Total floor area	1,022 m ²	thereof commercial	925 m ²	Tenancy rate	100%	
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Source: CR Capital Real Estate AG



FINANCIAL HISTORY AND OUTLOOK

CR Capital Real Estate issued preliminary key performance indicators for FY 2013 on 24 June. The company's 2013 annual report was released at the beginning of July.

INCOME STATEMENT

In FY 2013 sales increased to EUR13.5m (FY12: EUR8.6m). Rental income amounted to EUR0.9m (FY12: EUR1.3m) and income from the sale of properties was EUR12.7m (FY12: EUR7.4m). Taking into account property operating expenses of EUR0.1m (FY12: EUR0.4m) and expenditures associated with the sale of properties (including the purchase of land) totalling to EUR13.6m (FY12: EUR8.2m), gross profit for the period came in at EUR1.1m (FY12: EUR0.5m). Based on slightly increased operating expenditures such as personnel costs (+7% y/y to EUR0.4m), EBIT improved to EUR-0.6m (FY12: EUR-2.1m). Due to a positive tax effect, the company reported positive net income of EUR49k (FY12: EUR-2.6m).

Table 1: Income development

in EUR '000	FY 2012	FY 2013	y/y
Sales	8,621	13,506	56.7%
thereof rental income	1,257	851	-32.3%
thereof sale of properties	7,364	12,656	71.9%
thereof revaluation gains	-157	1,006	n.m.
Gross profit	521	1,130	116.9%
<i>Margin</i>	6.0%	8.4%	-
EBIT	-2,105	-629	n.m.
<i>Margin</i>	-24.4%	-4.7%	-
EBT	-2,851	-1,468	n.m.
<i>Margin</i>	-33.1%	-10.9%	-
Net income	-2,570	49	n.m.
<i>Margin</i>	-29.8%	0.4%	-
EPS	-0.17	0.00	-100.0%

Source: CR Capital Real Estate AG

BALANCE SHEET

Total assets at the end of FY 2013 decreased to EUR30.1m (end FY12: EUR34.2m) due mainly to a reduction in assets held for sale and short-term investments in connection with the repayment of debt. The value of CR Capital Real Estate's investments properties increased y/y to EUR7.8m (end FY12: EUR6.8m). The company's goodwill (which is attributable to the acquisition of 22. Projektgesellschaft Mitte mbH) remained unchanged at 2.7m. Properties held for sale amounted to EUR16.0m (end FY12: EUR18.4m) at year end 2013. Receivables associated with the sale of properties increased to EUR1.1m (end FY12: EUR0.3m). The firm's total accounts receivable were EUR1.4m (end FY12: EUR0.5m) at the end of December 2013. Cash amounted to EUR0.4m (end FY12: EUR1.0m).

At the end of FY 2013, financial debt (short- and long-term) decreased y/y to EUR5.3m (end FY12: EUR8.8m). CR Capital Real Estate's equity position was EUR10.7m (end FY12: EUR10.9m), which corresponded to an equity ratio of 35.4% (end FY12: 31.7%).

**Table 2: Balance sheet development**

in EUR '000	DEC 2012	DEC 2013	y/y
Assets held for sale	18,407	16,003	-13.1%
Cash	1,041	417	-59.9%
Short-term investments	4,268	584	-86.3%
Investment properties	6,760	7,766	14.9%
Goodwill	2,715	2,715	0.0%
Short-term financial debt	3,515	264	-92.5%
Long-term financial debt	5,254	4,991	-5.0%
Equity	10,866	10,665	-1.8%
Total assets	34,225	30,093	-12.1%
Equity ratio	31.7%	35.4%	-

Source: CR Capital Real Estate AG

CASH FLOW STATEMENT

Based on the firm's improved operating income development, CR Capital real Estate's operating cash flow increased to EUR1.7m (FY12: EUR-10.4m). Cash flow from investment activities amounted to EUR3.8m (FY12: EUR15.2m) due to the closing of fixed-deposit accounts. Due to the above-mentioned repayment of financial debt, cash flow from financing activities was negative at EUR-6.1m (FY12: EUR-5.0m). Net cash flow for the period amounted to EUR-0.6m (FY12: EUR-0.4m).

Table 3: Cash flow development

in EUR '000	FY 2012	FY 2013	y/y
Operating cash flow	-10,429	1,725	n.m.
Cash flow from investment activities	15,035	3,769	-74.9%
Cash flow from financing activities	-4,960	-6,115	n.m.
Net cash flow	-354	-622	n.m.

Source: CR Capital Real Estate AG

GUIDANCE FOR 2014E & SUBSEQUENT YEARS

CR Capital Real Estate AG expects a positive FY 2014E due to the completion of its "Thulestraße 47" and "Hohenzollerndamm 119" projects. If the company is able to sell all the apartments of these two projects during the current fiscal year, sales (including rental income) are expected to amount to roughly EUR14m and net income is forecast to range between EUR1.0m and EUR1.2m.

The company anticipates that its "Bessemmerstraße 84" project will be a stable base for positive bottom-line results from FY 2015E onwards.



ESTIMATES FOR 2014E & SUBSEQUENT YEARS

2014E ESTIMATES

Based on CR Capital Real Estate AG's guidance, we forecast an increase in FY 2014E sales to EUR14.0m. The increase in the firm's top-line is a result of the anticipated sale of the "Hohenzollerndamm" project (FBe: EUR5.6m) and the "Thulestrasse 47" project (FBe: EUR7.7m). Taking into account investments in current development projects and the acquisition of new building plots (i.e. cost of goods sold of EUR10.7m) as well as personnel costs at the prior year's level (EUR0.4m), we expect positive EBIT of EUR1.8m. Our bottom line estimate of EUR1.2m or EUR0.06 per share (based on 18.8m outstanding shares) is at the upper end of the company's FY 2014E guidance.

Table 4: Selected income statement items 2014E to 2017E

in EUR '000	FY 2014E	FY2015E	FY 2016E	FY 2017E
Sales	14,028	17,925	23,660	31,967
<i>Growth y/y</i>	3.9%	27.8%	32.0%	35.1%
EBIT	1,831	2,614	3,615	5,232
<i>Margin</i>	13.1%	14.6%	15.3%	16.4%
Net income	1,170	1,846	2,654	3,899
<i>Margin</i>	8.3%	10.3%	11.2%	12.2%
EPS	0.06	0.10	0.14	0.21

Source: First Berlin Equity Research

Based on the anticipated positive net result and HAEMATO AG's debt-to-equity swap earlier this year (capital increase in kind: accounts payable to HEAMATO AG in the amount of EUR3.8m were swapped into 3.8m new shares), the firm's equity position is forecast to increase to EUR15.6m. The repayment of end FY 2013's short-term debt (EUR0.3m) will further decrease the total financial debt position (short- and long-term) to EUR5.0m. Given an expected increase in cash and cash equivalents to EUR5.3m due to the sale of the two above mentioned development projects, CR Capital Real Estate is forecast to report net liquidity of EUR0.3m at year end 2014E.

SUBSEQUENT YEARS

According to our estimates, CR Capital Real Estate's sales and income development in subsequent years will be driven by the "Bessemmerstraße" project. We assume that this project with a total floor area of around 20,000 m² (200 units) will be divided into three construction phases. We expect first revenues from the sale of "Bessemmerstraße" units in FY 2015E, with the larger part being generated in the two following years. From 2017E onwards, we anticipate that the firm will focus on the development of projects comparable to the "Thulestraße 47" project (34 units). Despite investments in existing and new projects, we anticipate a subsequent (slight) increase in operating profitability due to the almost unchanged operating cost base.

Please see page 23 to 25 for comprehensive financial statements including our detailed estimates until FY 2017E.

GERMAN RESIDENTIAL REAL ESTATE MARKET

RESIDENTIAL MARKET

According to Germany's Federal Institute for Research on Building, Urban Affairs and Spatial Development ("BBSR"), an increasing number of German (rural) regions will see decreasing demand in local housing markets in the future. However, for Germany's "A" locations such as Berlin, demand is forecast to stay at least at the current level. Based on the findings of BBSR's residential market outlook until 2025, building of new residential properties will continue to be important in the next years.

Table 5: New buildings demand in Germany 2010 to 2025E (in units p.a.)

Western Germany	2010 to 2025 Ø	2010 to 2015 Ø	2016 to 2020 Ø	2021 to 2025 Ø
Flats in one- or two-family houses	98,000	103,000	97,000	93,000
Flats in apartment buildings	55,000	56,000	58,000	52,000
Total	154,000	159,000	155,000	145,000
Eastern Germany	2010 to 2025 Ø	2010 to 2015 Ø	2016 to 2020 Ø	2021 to 2025 Ø
Flats in one- or two-family houses	17,000	19,000	18,000	14,000
Flats in apartment buildings	12,000	15,000	12,000	10,000
Total	29,000	33,000	30,000	24,000
Total	2010 to 2025 Ø	2010 to 2015 Ø	2016 to 2020 Ø	2021 to 2025 Ø
	183,000	192,000	185,000	169,000

Source: Federal Institute for Research on Building, Urban Affairs and Spatial Development (2012)

The current low number of newly built units per year is expected to lead to a tight market situation for rented apartments and houses - especially in highly populated areas in Germany. In order to supply in particular low-income households with affordable residential property, BBSR expects construction of new properties to increase again in the future.

Table 6: Key indicators for the German residential market (I)

Indicator	Germany	Western Germany	Eastern Germany
Newly built apartments (in units)			
Residential and non-residential buildings	159,832	136,698	23,134
Newly built residential buildings	140,096	121,062	19,034
One- or two-family houses	85,367	72,263	13,104
Apartment buildings	53,014	47,111	5,903
Owner-occupied	27,364	25,196	2,168
Residential homes	1,715	1,688	27
Indicator	Germany	Western Germany	Eastern Germany
Housing stock (in mn units)			
Total	39.52	30.81	8.71
One- or two-family houses	18.63	15.63	3.00
Apartment buildings	20.89	15.19	5.71
Share of one- or two-family houses	47.1%	50.7%	34.4%
Share of apartment buildings	52.9%	49.3%	65.6%

Source: Federal Institute for Research on Building, Urban Affairs and Spatial Development (2012)

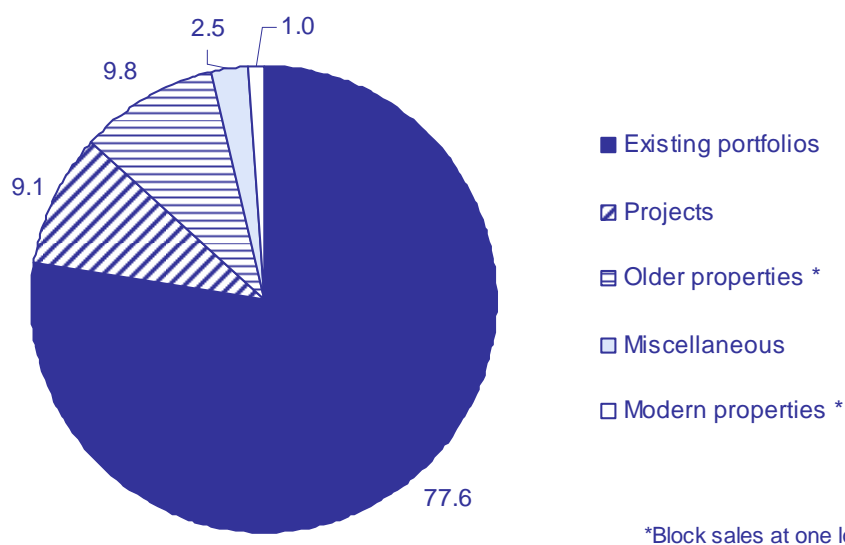
Table 7: Key indicators for the German residential market (II)

Indicator	Germany	Western Germany	Eastern Germany
Rental prices (in EUR/m²)			
Rent in new and existing properties (utilities not included)	6.20	6.54	5.32
Rent in existing properties (utilities included)	7.43	-	-
Burden caused by utilities	22%	23%	19%
Vacancy			
Vacancy	3.7%	2.9%	5.8%
Owner-occupancy			
Owner-occupancy	43.2%	45.7%	32.5%

Source: Federal Institute for Research on Building, Urban Affairs and Spatial Development (2012)

RESIDENTIAL INVESTMENT MARKET

According to BNP Paribas Real Estate, investments in residential portfolios amounted to EUR7.0bn in H1 2014. The transaction volume thus increased 16% y/y. Volume growth was mainly driven by large portfolio transactions such as the Deutsche Annington-Dewag deal (ca. 11,500 units).

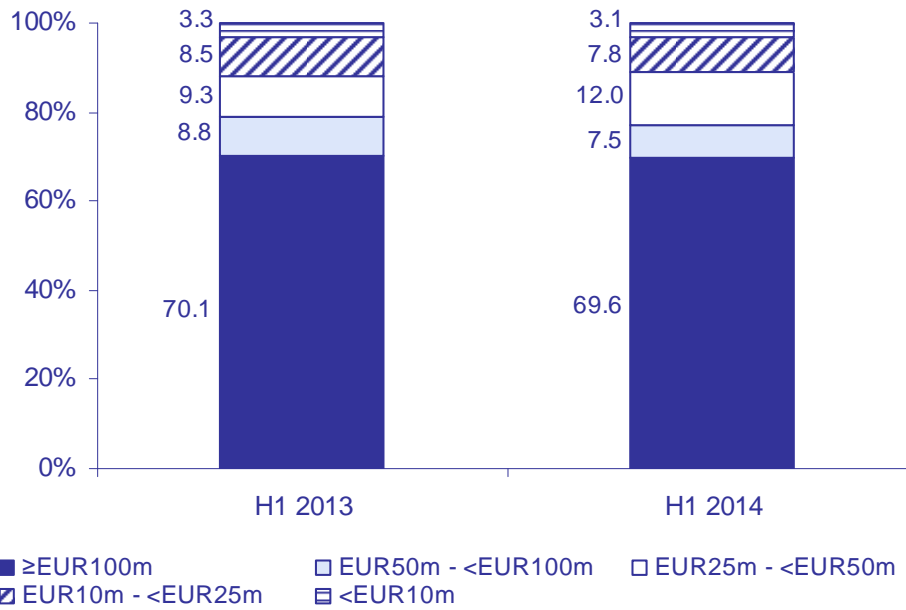
Figure 5: Investment by asset class in H1 2014 (in %)

Source: BNP Paribas Real Estate

However, since most of the major transactions happened during Q1 2014 (EUR5.1bn), Q2 2014 was dominated by medium-sized deals. During H1 2014 BNP Paribas registered 120 transactions with a total of roughly 115,000 units involved. The average volume per deal was around EUR60m.



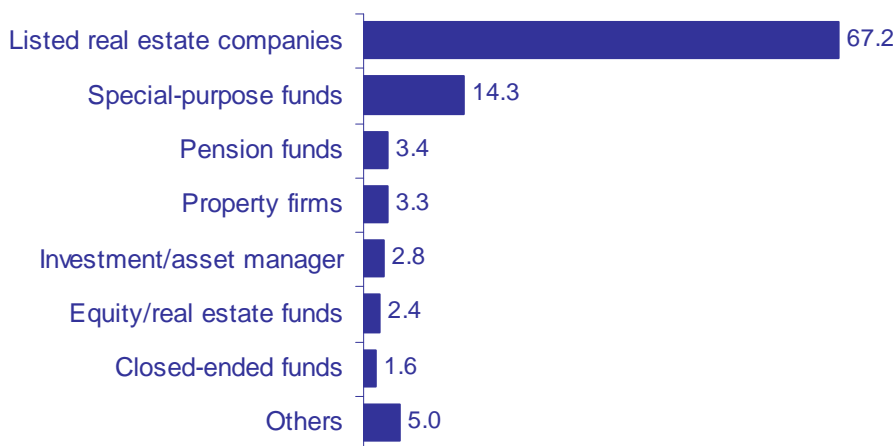
Figure 6: Investment by size category (in %)



Source: BNP Paribas Real Estate

Regarding asset-class ranking, multi-location portfolios of existing properties account for 78% of the total volume due mainly to the large number of big deals completed. Block sales of older properties account for almost 10% and project properties for around 9%. Modern properties and other assets such as halls of residence are currently of minor importance.

Figure 7: Investment by buyer group in H1 2014 (in %)



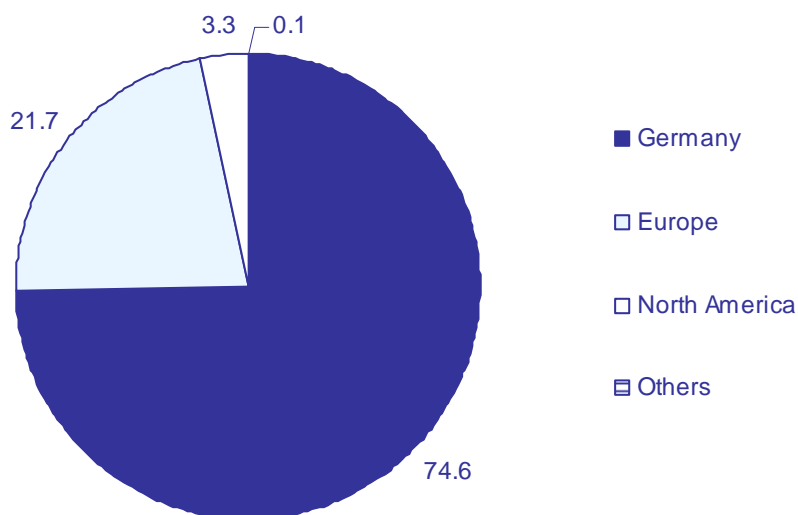
Source: BNP Paribas Real Estate

With a H1 2014 market share of almost 70% of total volume, deals over EUR100m still dominate the German residential real estate market. Small transactions with a volume of less than EUR10m account for slightly more than 3% of total turnover. Around 37% of all H1 2014 transactions had a volume of under EUR10m.

In H1 2014, around two-thirds of all residential property investments were made by listed real estate companies (share of more than 67%). Special purpose funds accounted for around 14% of the investment volume.

German investors are the biggest buyer group in the German residential real estate market (share of 75% in H1 2014 transaction volume), followed by other European investors (roughly 22%) and North American investors (around 3%).

Figure 8: Investment by origin of capital in H1 2014 (in %)



Source: BNP Paribas Real Estate

Purchase prices remained stable in H1 2014. In the most important market segment - portfolios of existing properties - prices generally ranged between EUR750 and EUR900 per m². The highest per m² selling prices were recorded in the project development segment at major German investment locations. Project developments were traded between EUR3,000 to EUR3,500 per m² with significantly higher selling prices for top properties in Germany's top locations ("A" locations such as Munich or Hamburg).

Table 8: Average purchase prices in Germany

Average sales prices according to asset classes H1 2014	
Older properties*	EUR1,100 - EUR1,300 per m ²
Existing portfolios	EUR750 - EUR900 per m ²
Modern properties*	EUR1,900 - EUR2,100 per m ²
Projects	EUR3,300 - EUR3,500 per m ²
Miscellaneous	EUR2,400 - EUR2,800 per m ²

*Block sales at one location

Source: BNP Paribas Real Estate

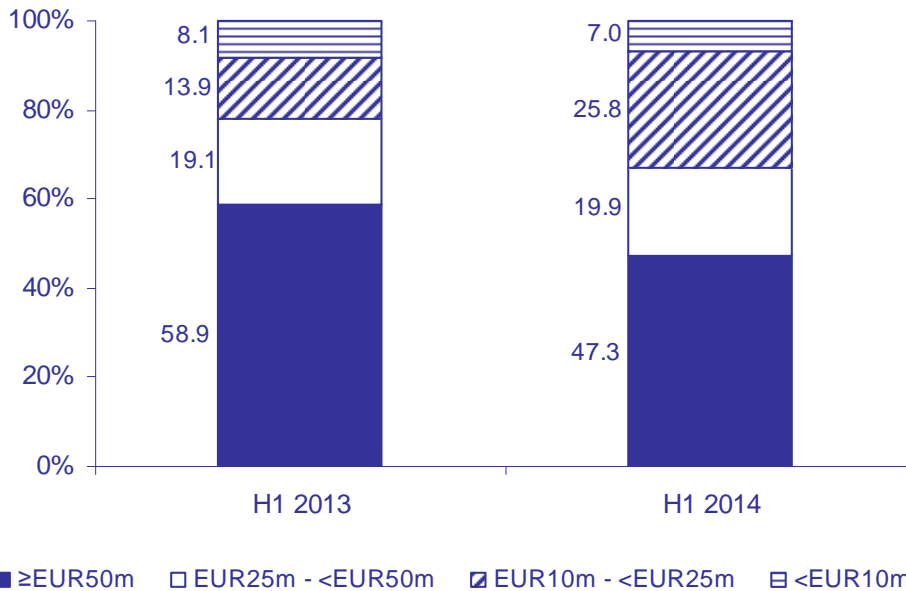


According to BNP Paribas' forecast for Germany's residential real estate market in fiscal year 2014, it is likely that the transaction volume will range between EUR11bn and EUR12bn. Based on dynamic market activity especially in the small-sized segment and growing interest from foreign investors in stable, safe German residential properties, sustained high transaction volumes are also forecast for the medium-term.

BERLIN'S RESIDENTIAL REAL ESTATE MARKET

According to BNP Paribas Real estate, demand in Berlin's real estate investment market remained at a high level in H1 2014. Real estate investments during the period totalled EUR1.4bn. Compared to Germany's other "A" locations, Berlin is ranked 4th (1st place Munich: EUR1.8bn; 2nd place Hamburg: EUR1.6bn; 3rd place Frankfurt/Main: EUR1.5bn).

Figure 9: Investment by size category (in %)



Source: BNP Paribas Real Estate

According to the Statistical Office for Berlin-Brandenburg, Berlin continues to grow (population 2013: +1.2% y/y; 2012: +1.5% y/y; source: Destatis). The trend towards smaller private households is intact (2012: +1.8%), thus outpacing the development of Berlin's population and additionally increasing demand for apartments.

Table 9: Population and private households

Berlin 2012					
District	Population		Private households		
	Total	y/y	Total	y/y	SPHs*
Mitte	329,969	2.4%	202,357	-0.2%	61.6%
Friedrichshain-Kreuzberg	259,483	1.9%	167,413	0.4%	60.4%
Pankow	364,794	1.8%	231,276	1.4%	59.7%
Charlottenburg-Wilmersdorf	298,567	1.7%	201,697	3.5%	60.4%
Spandau	218,935	1.3%	129,801	1.7%	50.7%
Steglitz-Zehlendorf	281,604	1.0%	164,652	3.5%	48.7%
Tempelhof-Schöneberg	320,917	0.5%	191,486	-0.4%	53.8%
Neukölln	308,342	1.7%	177,732	2.8%	55.0%
Treptow-Köpenick	242,000	1.1%	143,095	4.0%	50.9%
Marzahn-Hellersdorf	248,786	1.2%	138,141	2.9%	46.1%
Lichtenberg	258,586	1.7%	154,240	1.5%	49.4%
Reinickendorf	243,239	1.3%	128,613	1.2%	44.7%
Berlin	3,375,222	1.5%	2,030,503	1.8%	54.3%

* Single-person households

Source: Statistical Office for Berlin-Brandenburg, Jones Lang LaSalle

Table 10: Real estate data

Berlin 2012						
District	Residential buildings		Housing stock		Housing completion**	
	Total	ABs*	Total	y/y	Total	in ABs*
Mitte	12,939	93.9%	188,883	0.2%	391	385
Friedrichshain-Kreuzberg	9,406	95.9%	146,356	0.2%	66	66
Pankow	35,394	45.2%	208,185	0.7%	1,164	798
Charlottenburg-Wilmersdorf	17,634	74.8%	187,890	0.1%	245	219
Spandau	27,169	33.4%	118,958	0.3%	365	96
Steglitz-Zehlendorf	39,732	38.1%	157,250	0.2%	243	127
Tempelhof-Schöneberg	28,329	49.6%	183,038	0.1%	165	78
Neukölln	27,479	39.3%	164,019	0.1%	102	24
Treptow-Köpenick	35,990	31.6%	133,224	0.5%	487	221
Marzahn-Hellersdorf	29,814	23.5%	133,226	0.4%	424	80
Lichtenberg	15,553	59.6%	147,849	0.5%	368	90
Reinickendorf	35,162	29.0%	130,457	0.1%	185	35
Berlin	314,601	43.6%	1,899,335	0.3%	4,205	2,219

* Apartment buildings

** Completion of new apartments

Source: Statistical Office for Berlin-Brandenburg, Jones Lang LaSalle

According to Jones Lang LaSalle, construction activity is increasing. In H2 2013, building permissions granted increased by almost 25% y/y to 12,000 housing units. However, given the increase in population and private households, around 16,000 new housing units would be needed annually (source: BBSR). This shortfall fuels the increase of rental and purchasing prices in Berlin's residential real estate sector.

**Table 11: Median rent* by apartment size H2 2013**

in EUR/m ² /month				
District	<45m ²	45-65m ²	66-90m ²	>90m ²
Mitte	9.85	9.00	9.00	11.20
Friedrichshain-Kreuzberg	10.00	9.85	9.65	10.10
Pankow	10.00	8.15	8.00	9.55
Charlottenburg-Wilmersdorf	10.85	9.25	9.05	10.20
Spandau	7.75	6.65	6.25	6.75
Steglitz-Zehlendorf	9.10	8.10	8.45	9.00
Tempelhof-Schöneberg	9.45	8.00	7.50	8.55
Neukölln	8.65	7.45	7.10	7.65
Treptow-Köpenick	8.00	6.95	7.00	7.60
Marzahn-Hellersdorf	7.65	6.30	5.35	6.55
Lichtenberg	8.30	7.40	6.85	7.60
Reinickendorf	8.10	6.75	6.70	7.00
Berlin	9.20	7.85	7.55	9.05

* Median: 50% of offerings below and 50% above the price

Source: IDN ImmoDaten GmbH, Jones Lang LaSalle

Table 12: Median rent* by construction year H2 2013

in EUR/m ² /month							
District	<1919	1920-1945	1946-1960	1961-1975	1976-1990	1991-2008	>2009
Mitte	8.85	7.30	8.75	9.00	6.75	12.05	13.50
Friedrichshain-Kreuzberg	9.85	n.a.	9.25	9.05	8.55	9.60	11.95
Pankow	9.20	8.10	6.95	n.a.	7.00	7.40	10.00
Charlottenburg-Wilmersdorf	9.70	9.00	8.80	8.80	8.95	11.00	12.00
Spandau	6.40	7.25	6.20	5.85	6.55	7.00	8.30
Steglitz-Zehlendorf	8.70	9.00	8.00	7.90	7.90	9.20	9.50
Tempelhof-Schöneberg	8.90	7.50	8.30	7.05	6.80	7.60	10.00
Neukölln	8.55	7.60	7.30	6.35	6.55	7.30	8.15
Treptow-Köpenick	7.05	6.85	6.55	6.35	6.25	7.50	9.00
Marzahn-Hellersdorf	7.40	n.a.	n.a.	n.a.	5.45	7.05	6.70
Lichtenberg	8.00	7.50	n.a.	6.35	5.90	7.50	8.35
Reinickendorf	7.05	6.35	6.60	5.85	6.95	7.70	8.95
Berlin	8.85	7.60	7.80	6.95	6.55	7.80	10.45

* Median: 50% of offerings below and 50% above the price

Source: IDN ImmoDaten GmbH, Jones Lang LaSalle

In the years 2011 to 2013, the median rent per m² increased by almost 25%. Compared to H1 2006, when rents were bottoming out, the increase amounts to almost 50%. On average (2004 to 2013), the median rent per m² increased by 1.7% y/y. However, rents differ significantly by location, apartment size, and apartment age.



The same applies for the development of purchasing prices. Since 2010, the median purchasing price per m² increased by more than 50%, exceeding the EUR2,500 threshold. On average (2004 to 2013), the median purchasing price per m² increased by 2.4% y/y - outpacing the growth in median rental prices and reflecting high demand from investors.

Table 13: Median purchasing prices* by apartment size H2 2013

in EUR/m ²				
District	<45m ²	45-65m ²	66-90m ²	>90m ²
Mitte	2,130	2,460	3,100	3,910
Friedrichshain-Kreuzberg	2,540	2,530	3,000	3,380
Pankow	2,210	2,130	2,630	3,020
Charlottenburg-Wilmersdorf	2,420	2,340	2,680	3,660
Spandau	1,140	1,190	1,510	2,020
Steglitz-Zehlendorf	1,670	1,750	2,180	3,120
Tempelhof-Schöneberg	1,630	1,700	1,900	2,770
Neukölln	1,400	1,530	1,840	2,390
Treptow-Köpenick	1,840	1,760	2,360	2,500
Marzahn-Hellersdorf	n.a.	1,030	1,250	1,840
Lichtenberg	1,570	1,860	2,220	2,560
Reinickendorf	1,390	1,510	1,620	2,260
Berlin	1,980	1,970	2,350	3,100

* Median: 50% of offerings below and 50% above the price

Source: IDN ImmoDaten GmbH, Jones Lang LaSalle

Table 14: Median purchasing prices* by construction year H2 2013

in EUR/m ²							
District	<1919	1920-1945	1946-1960	1961-1975	1976-1990	1991-2008	>2009
Mitte	2,610	1,490	1,930	2,070	2,400	3,720	4,160
Friedrichshain-Kreuzberg	2,800	2,850	2,300	1,880	1,550	2,440	3,500
Pankow	2,670	1,750	1,590	1,320	n.a.	1,950	3,130
Charlottenburg-Wilmersdorf	3,140	2,650	1,950	2,250	2,930	3,410	3,950
Spandau	1,960	1,230	1,180	1,190	1,650	1,780	2,180
Steglitz-Zehlendorf	2,430	1,760	1,550	1,780	2,490	2,760	3,840
Tempelhof-Schöneberg	2,600	1,420	1,540	1,710	1,720	2,070	3,240
Neukölln	2,180	2,530	1,520	1,310	1,960	2,100	2,800
Treptow-Köpenick	2,190	1,420	1,570	1,240	1,110	1,910	2,900
Marzahn-Hellersdorf	n.a.	n.a.	n.a.	n.a.	950	1,570	2,090
Lichtenberg	1,820	2,140	n.a.	1,160	1,000	1,920	2,710
Reinickendorf	1,580	1,360	1,460	1,460	2,250	2,030	2,380
Berlin	2,650	1,670	1,630	1,680	2,100	2,140	3,540

* Median: 50% of offerings below and 50% above the price

Source: IDN ImmoDaten GmbH, Jones Lang LaSalle

Given the good economic prospects, low interest rates, and the limited number of investment alternatives, BNP Paribas Real Estate anticipates that Berlin's real estate market will see a lively H2 2014.



MANAGEMENT

Management

Stefan Demske has been CEO of CR Capital Real Estate AG since 10 June 2014. After studying economics and organisational studies, Mr Demske managed property holding companies, was CEO at a building company and also worked as transaction consultant.

Supervisory Board

Stefan Krach, born in Ludwigsburg in 1959, has been the chairman of the Supervisory Board at CR Capital Real Estate AG since its foundation. He studied law in Munich and Toronto.

Peter Peitz, born in 1958, studied architecture in Munich. He is managing partner of Peitz und Partner Planungsgesellschaft mbh and Peitz Bausachverständige GmbH. Mr Peitz has been working as an expert surveyor on building damage since 2004.

Dr. Christian Pahl, born in 1969, studied business economics at Bayreuth University and afterwards obtained his doctorate in finance. Dr Pahl is a member of the managing board at MPH Mittelständische Pharma Holding AG and HAEMATO AG.



SHAREHOLDERS & STOCK INFORMATION

Stock Information	
ISIN	DE000A0WMQ53
WKN	A0WMQ5
Bloomberg ticker	CRZ GR
No. of issued shares	18,783,778
Transparency Standard	Entry Standard
Country	Germany
Sector	Financial Services
Subsector	Real Estate

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
HAEMATO AG	20.1%
Free Float	79.9%

Source: CR Capital Real Estate AG



INCOME STATEMENT ANALYSIS

All figures in EUR '000	2012A	2013A	2014E	2015E	2016E	2017E
Revenues	8,621	13,506	14,028	17,925	23,660	31,967
Total revenues	14,849	14,912	14,028	17,925	23,660	31,967
Cost of goods sold	14,328	13,782	10,661	13,533	17,911	24,186
Gross profit	521	1,130	3,367	4,392	5,749	7,781
Personnel costs	383	409	421	448	459	480
Depreciation and amortisation	862	353	49	39	43	55
Other operating expenses	1,381	998	1,066	1,291	1,633	2,014
Operating income (EBIT)	-2,105	-629	1,831	2,614	3,615	5,232
Net financial result	-746	-839	-296	-192	-131	-115
Pre-tax income (EBT)	-2,851	-1,468	1,535	2,422	3,483	5,117
Income taxes	-281	-1,517	350	552	794	1,167
Minority interests	44	11	-15	-24	-35	-51
Net income / loss	-2,526	60	1,170	1,846	2,654	3,899
Diluted EPS (in €)	-0.17	0.00	0.06	0.10	0.14	0.21
EBITDA	-1,243	-276	1,880	2,653	3,658	5,287
Ratios						
Gross margin	-66.2%	-2.0%	24.0%	24.5%	24.3%	24.3%
EBIT margin on revenues	-24.4%	-4.7%	13.1%	14.6%	15.3%	16.4%
EBITDA margin on revenues	-14.4%	-2.0%	13.4%	14.8%	15.5%	16.5%
Net margin on revenues	-29.3%	0.4%	8.3%	10.3%	11.2%	12.2%
Tax rate	9.9%	103.4%	22.8%	22.8%	22.8%	22.8%
Expenses as % of revenues						
Personnel costs	4.4%	3.0%	3.0%	2.5%	1.9%	1.5%
Depreciation and amortisation	10.0%	2.6%	0.3%	0.2%	0.2%	0.2%
Other operating expenses	16.0%	7.4%	7.6%	7.2%	6.9%	6.3%
Y-Y Growth						
Revenues	n.a.	56.7%	3.9%	27.8%	32.0%	35.1%
Operating income	n.a.	n.m.	n.m.	42.8%	38.3%	44.7%
Net income/ loss	n.a.	n.m.	1834.6%	57.8%	43.8%	46.9%



BALANCE SHEET ANALYSIS

All figures in EUR '000	2012A	2013A	2014E	2015E	2016E	2017E
Assets						
Current assets, total	24,554	18,542	19,258	21,299	24,742	32,455
Cash and cash equivalents	1,041	417	4,691	3,003	784	370
Short-term investments	4,268	584	584	584	584	584
Receivables	468	1,352	1,384	1,768	2,334	3,153
Inventories	18,407	16,003	12,414	15,758	20,855	28,162
Other current assets	357	184	184	184	184	184
Non-current assets, total	9,671	11,552	11,538	11,544	11,560	11,585
Property, plant & equipment	63	65	51	58	74	98
Goodwill & other intangibles	2,829	2,717	2,717	2,717	2,717	2,717
Other assets	6,779	8,770	8,770	8,770	8,770	8,770
Total assets	34,225	30,094	30,796	32,843	36,302	44,040
Shareholders' equity & debt						
Current liabilities, total	17,066	13,969	9,729	9,906	10,676	12,763
Short-term debt	3,515	264	0	0	500	2,200
Accounts payable	1,074	850	657	834	1,104	1,491
Current provisions	807	1,193	1,193	1,193	1,193	1,193
Other current liabilities	11,670	11,663	7,879	7,879	7,879	7,879
Long-term liabilities, total	6,293	5,459	5,459	5,459	5,459	7,159
Long-term debt	5,254	4,991	4,991	4,991	4,991	6,691
Other liabilities	1,039	468	468	468	468	468
Minority interests	0	19	35	59	94	145
Shareholders' equity	10,866	10,647	15,574	17,419	20,074	23,973
Share Capital	15,000	15,000	18,784	18,784	18,784	18,784
Treasury Stock	-139	-139	-139	-139	-139	-139
Loss carryforward / retained earnings	-4,130	-4,216	-3,046	-1,200	1,454	5,354
Total consolidated equity and debt	34,225	30,094	30,796	32,843	36,302	44,040
Ratios						
Current ratio	1.44	1.33	1.98	2.15	2.32	2.54
Quick ratio	0.36	0.18	0.70	0.56	0.36	0.34
Financial leverage	3.15	2.83	1.98	1.89	1.81	1.84
Book value per share	0.72	0.71	0.83	0.93	1.07	1.28
Net cash	-3,460	-4,253	284	-1,403	-4,123	-7,936
Return on equity (ROE)	-23.2%	0.6%	7.5%	10.6%	13.2%	16.3%



CASH FLOW STATEMENT ANALYSIS

All figures in EUR '000	2012A	2013A	2014E	2015E	2016E	2017E
EBIT	-2,105	-629	481	2,614	3,615	5,232
Depreciation and amortisation	862	353	49	39	43	55
EBITDA	-1,243	-276	529	2,653	3,658	5,287
Changes in working capital	-7,841	3,734	3,365	-3,551	-5,393	-7,739
Other adjustments	-1,345	-1,733	678	-744	-925	-1,281
Operating cash flow	-10,429	1,725	4,572	-1,643	-2,660	-3,733
CAPEX	0	-19	-35	-45	-59	-80
Free cash flow	-10,429	1,707	4,537	-1,687	-2,720	-3,813
Debt financing, net	-4,960	-6,115	-264	0	500	3,400
Equity financing, net	0	0	0	0	0	0
Other changes in cash	15,703	3,786	0	0	0	0
Net cash flows	314	-623	4,274	-1,687	-2,220	-413
Cash, start of the year	727	1,041	417	4,691	3,003	784
Cash, end of the year	1,041	418	4,691	3,003	784	370
EBITDA/share (in €)	-0.08	-0.02	0.10	0.14	0.19	0.28
Y-Y Growth						
Operating cash flow	n.a.	n.m.	165.0%	n.m.	n.m.	n.m.
Free cash flow	n.a.	n.m.	165.9%	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	n.m.	41.1%	37.9%	44.5%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	23 July 2014	€0.95	Buy	€2.10

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BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

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