

## TAG TEGERNSEE

## Buy, build and hold

**ROBERT WILLIS, MANAGING DIRECTOR RESEARCH, VISCARDI SECURITIES** TAG Tegersee concentrates its property portfolios on metropolitan areas with above average growth. The group has a total of around 5,000 residential and commercial properties and manages a further 7,200 third-party properties. Almost half of commercial properties are located in Hamburg with other concentrations in Leipzig, Berlin and Munich. Its residential properties are mainly located in Berlin, Hamburg, Munich and Leipzig. The shares are trading at EUR 5.90, a 52% discount to net asset value of EUR 12.36 per share. Our last published target price is EUR 12.0.

In 2007 TAG Tegersee increased group sales by 36% to EUR 146m. Pre-tax profit rose from EUR 6.4m to EUR 31.1m with net profit up from EUR 2.8m to EUR 16.5m. The increase in profitability was due to stable rental income, expansion in its portfolio and profit from the sale of real estate. The group has proposed a dividend of EUR 0.1 per share. Strategy is for long-term value growth, with continual project and portfolio development to increase the value of its real estate portfolio. For 2008 the group plans to invest in developing selected properties for some EUR 50m and an additional EUR 100m in acquisitions of property portfolios.

### Three businesses

The group has three main activities. In 2007 the largest was TAG Gewerbe, which accounted for over 67% of group net profit at EUR 11.1m. Bau Verein zu Hamburg reported net profit of EUR 7.1m or 43% of group net profit. TAG Asset Management had a net profit of just EUR 1.1m.

### TAG Gewerbe – commercial real estate

TAG Gewerbe is registered as a pre-REIT. It focuses on commercial real estate, especially office real estate in metropolitan areas of Germany. At the end of 2007 the business has a portfolio of around EUR 400m and generating stable cash flow.

### Residential property – Bau-Verein zu Hamburg

TAG Tegersee controls 71% of the listed residential housing group Bau-Verein zu Hamburg. The business is trading at EUR 4.48, a 41% discount to its NAV of EUR 7.60 per share. The company includes 1,650 units, 2,283 units in development and 199 new built units under construction. Although residential property has been excluded from German REITs, we believe in the medium term these may be included to avoid obvious distortions developing in the market.

### TAG Asset Management – Services

TAG Asset Management is focused on property services, which includes all real estate-related activities, from acquisitions, due diligence, project development and management, construction site supervision and controlling for the group as well as for third parties. Major customers include Conwert Immobilien AG. The group manages some 7,200 units for third parties.



The business has stable earnings and limited capital needs. In late 2007 TAG Asset Management agreed a joint venture with HSH Nordbank for its property and asset management area for commercial real estate. The new business manages a portfolio of EUR 1.2bn.

### Conclusion:

We believe NAV could grow with the acquisition of identified niche portfolios. Once fully leveraged, the shares could provide strong earnings and a sound dividend payment.

Disclaimer: This article is no directed selling effort.

