J.P.Morgan CAZENOVE

IVG Immobilien

Nothing left for the Ordinary Equity, Remain Underweight

IVG announced a 'holistic restructuring' of its liabilities at its FY12 results. A combination of legacy issues on both sides of its balance sheet has led to cash flow being insufficient to support its capital structure. Our EVA based European Valuation Model implies zero value for IVG ordinary equity as a going concern, and not even a bull case scenario creates equity on the balance sheet. We therefore lower our Mar-14 EVM based price target from €2.22 to €0.01, and reiterate our Underweight recommendation which we have maintained since July 2007. We await the announcement of restructuring plans over summer 2013.

- **Too much leverage, too much expansion and a heavy cost structure:** Previous management acquired assets at the market peak, expanded into new business lines and diversified into foreign markets.
- **The credit crunch exposed an expensive corporate model, and excessive business and financial risk.** We estimate LTV of 75% (94% over property assets only) as at FY12, only €181m of cash EBIT expected in 2013 off €5,795m of assets and a real estate portfolio overvalued by €735m.
- **Even if liabilities are restructured, group cash flow appear insufficient:** We estimate a discount to NAV of 23% for a 50:50 D/E restructured IVG, based on €181m of 2013e cash EBIT.
- **No value for equity holders:** On both our EVM valuation, which looks at IVG as an ongoing concern, and on a revalued balance sheet snapshot we see zero value for ordinary equity.
- **Overvaluation primarily in Value Add portfolio:** The Value Add portfolio looks especially challenging, with average lease length of 2.5 years, 26% vacancy, 39 of the 62 assets worth <€10m and requiring capex. In the Core portfolio only six assets are worth >€100m.
- **Even a Bull Case Scenario doesn't help:** We estimate only 4.2% upside to the Core portfolio valuation in a Bull scenario, while the Value Add and Workout portfolios are still 26% overvalued. Under a Bull Scenario our going concern valuation is still zero, as is our balance sheet value.

Underweight

IVGG.DE, IVG GR
Price: €0.53

▼ **Price Target: €0.01**
Previous: €2.22

European Property

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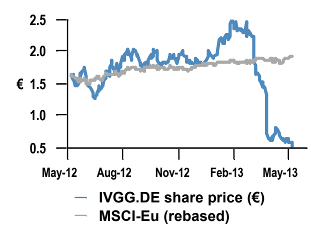
Price Performance



	YTD	1m	3m	12m
Abs	-72.9%	-25.4%	-77.5%	-67.7%
Rel	-80.2%	-30.1%	-83.1%	-85.1%

IVG Immobilien (IVGG.DE;IVG GR)

FYE Dec	2011A	2012A	2013E *(Prev)*	2013E *(Curr)*	2014E *(Prev)*	2014E *(Curr)*
Adj. EPS FY (€)	(0.68)	(0.66)	(0.32)	(0.57)	(0.45)	(0.54)
Adj P/E FY	NM	NM	NM	NM	NM	NM
DPS FY (€)	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield FY	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted NAV ps FY (€)	3.7	3.3	3.6	0.1	3.5	(0.1)
ROIC FY	4.9%	2.9%	3.6%	-11.6%	3.8%	1.7%
NAV premium (discount) FY	(85.2%)	(83.3%)	(45.2%)	444.0%	(44.2%)	(509.8%)
WACC FY	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price (€)	0.53
Date Of Price	07 May 13
Price Target (€)	0.01
Price Target End Date	31 Mar 14
52-week Range (€)	2.53 - 0.56
Mkt Cap (€ bn)	0.1
Shares O/S (mn)	126

See page 17 for analyst certification and important disclosures, including non-US analyst disclosures.

IVG ordinary equity wiped out

IVG announced a 'holistic restructuring' of its liabilities at its FY12 results. A combination of legacy issues on both sides of its balance sheet has led to cash flow being insufficient to support its capital structure. Our EVA based European Valuation Model implies zero value for IVG ordinary equity as a going concern, while a DCF driven revaluation implies zero equity value on the existing balance sheet. We therefore lower our Mar-14 EVM based price target from €2.22 to €0.01, and await the announcement of restructuring plans over summer 2013.

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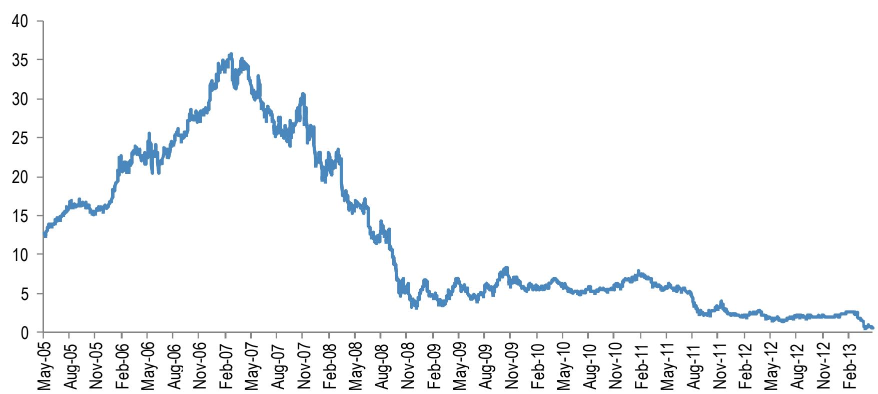
1. Current Situation

IVG announced a 'holistic restructuring' of its liabilities at its FY12 results. A combination of legacy issues on both sides of its balance sheet has led to cash flow being insufficient to support its capital structure. We believe that zero value is left for the ordinary equity, and that the senior unsecured debt and convertible will struggle to receive value from the remaining portfolio even though they appear to be nominally covered.

History – previous management too aggressive

We note that previous management of IVG in the years 2006-2008, acquired properties at the market peak, took on excessive development risk, expanded into CEE markets and had built up too much leverage. The credit crunch led to falling property rents and values, especially in CEE markets, while overspending at The SQUAIRE led to a loss on development of around €400m. Furthermore, ambitions to build multiple business lines (development, asset management, funds management) resulted in an expensive cost structure that absorbed cash flows from productive business lines.

Figure 1: IVG Share Price last eight years



Source: Bloomberg

€400m convertible bond April 2014 put option triggered restructuring

Compounding this was a complex debt structure including a €400m convertible issued with a put option imbedded in it that comes due end of March 2014, upon exercise of which (by the holders) IVG must repay the face value. This is the immediate funding requirement that (amongst other issues) triggered the announcement of a restructuring on 27 March with the FY12 results:

"the Management Board has decided to develop a new holistic financing strategy in the interests of all stakeholders"

To meet this obligation, IVG had planned to lease the SQUAIRE up to >95% (currently 86%) and then sell the €800m book value asset to a managed fund, which would free up €300m of equity after paying off the project finance loan of just under €500m attached to the site. However, letting progress was not fast enough and it appears unlikely the company will be able to raise funds on time via a Private Funds

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placement to retail investors in Germany, to meet the put option on the convertible bond in 12 months time.

Diverse Business Lines, Real Estate challenging

As at end 2012, IVG had balance sheet total assets of €6,131m of which €336m were derivatives and deferred tax assets, leaving €5,795m of 'business line' assets as per Table 1. The real estate portfolio consists of three portfolios ordered by strength of income, The SQUAIRE at Frankfurt Airport, developments and fund equity stakes. Other assets include the oil and gas storage caverns business, funds management business and group assets, including €150m of cash.

Table 1: IVG Summary Balance sheet valuation (€m)

	IVG Book Value
Core Portfolio	2,249
Value Add Portfolio	690
Workout Portfolio	254
Portfolio other	48
The SQUAIRE	807
The SQUAIRE parking	53
Real Estate	**4,101**
Other development	139
Fund equity stakes	180
Caverns	792
Institutional Funds	272
Private Funds	41
Group Level	270
	1,694
Total Assets	**5,795**

Source: J.P. Morgan estimates, Company data.

Core Portfolio

The Core portfolio consists of 72 properties, located 33% in Munich, 31% in Frankfurt and 21% Hamburg with the remainder in other German cities apart from Helsinki with 3.4%. The Weighted Average Unexpired Lease Term (WAULT) is just over 5 years and occupancy is 93%. The portfolio has six assets worth >€100m each, three in Frankfurt and three in Munich. However, it also has 28 properties <€10m each and a further 20 worth more than €10m but less than €25m. We calculate a one-year forward Net Yield of 5.7% for the portfolio.

Value Add Portfolio

The Value Add portfolio consists of higher vacancy (26% as per FY12 presentation), shorter lease terms (2.5 years WAULT per 2012 Annual Report) and smaller assets with 39 of the 62 buildings worth less than €10m each and only five worth >€25m. Furthermore, the portfolio is requiring capex to maintain competitiveness. However, it must be noted that of IVG's 2.8% like for like rental growth over 2012, the Value Add portfolio generated 16.1% due to letting of vacant space against the Core portfolio's -0.2%.

Workout Portfolio

The Workout portfolio is split into two sub-portfolios, income producing and non income producing. The income producing portfolio generates €4m of gross rents with a value of €73m on the balance sheet (4.9% net yield) while the non income producing portfolio has €1m gross rents contracted for 2013, with a value of €181m.

The SQUAIRE

The SQUAIRE is IVG's completed 140,000 sq m mixed use development adjacent to Frankfurt Airport, and is on the books at c.€800m. It is currently 85% let with key tenants are Lufthansa AG (c. 19,000 sqm, 10 year with 5 year break, but penalty) the Hilton Group (c. 35,000 sqm, 20 years) and KPMG (c 40,000, 10 years). The SQUAIRE generates potential gross rental income of €44m pa if a 98% occupancy rate is assumed, we estimate NOI of €33.5m based on current occupancy, indicating a net yield of 4.2% at the current book value of c.€800m.

Other developments

Other developments include offices in France (Front Office Asnieres, close to Paris), retail in Poland (Drukarnia) and offices in Hungary (Stefania) with total book value of €120.3m.

Equity stakes in funds under management

As part of the fund management business, IVG also owns co-investment stakes in funds that it manages.

Caverns

On its industrial site in Northern Germany, IVG has the potential to build up to 130 oil and gas storage 'caverns' in an underground salt dome. Of the 130, 70 caverns are let and sold/pre-sold to Caverns Fund I. Out of the 60 remaining, 7 are let/pre-let and were recently sold/pre-sold to Caverns Fund II with delivery in the years 2016/17.

On its balance sheet the entire business including PP&E is valued at €792m plus a market value adjustment of €312m (not included in total assets but supplied as an 'adjustment' to NAV independent from the balance sheet). This number breaks down into 12 pre let caverns under construction to be sold to Cavern Funds I valued at €264m, six Caverns to be sold to Caverns Funds II worth €192m and 54 future cavern options with a accumulated capex of €264m. Of these one is pre-let and pre-sold to Cavern Funds II.

Institutional funds management

IVG structures, distributes and manages real estate funds for institutional investors with €11.8bn under management which generates EBIT of €19.4m. IVG is manager in perpetuity for the funds barring a resolution from unit-holders for termination, and generates a typical management fee of 60 bps over GAV (40bps EBIT margin) along with transaction fees.

Private funds management

The private funds division sets up and manages funds for private and semi-institutional investors. This division generates income mainly through placement fees, meaning that if new funds are not being created revenues reduce in tandem. IVG currently has €3.4bn under management.

Group Level

Group level assets including cash and equivalents of €150m and financial assets.

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€4,250m of senior debt, €3,800m collateralized

These assets support €4,250m of senior debt made up of collateralised bank debt of €3,850m and the €400m convertible. The level of collateralization, however, differs between the different loans, whereas our understanding is that Syn Loan I is only partially secured by a mix of property and other assets.

Table 2: IVG Debt Structure (€m)

Loans	1,089
Project Financing	584
SynLoan I (only partially secured)	1,334
SynLoan II	843
Total Senior Secured Debt	**3,850**
Convertible	400
Total Senior Unsecured Debt	**400**
Total Senior Debt	**4,250**

Source: Company reports.

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Balance sheet not the only problem, assets don't produce enough cash

IVG generated €114m of operating EBIT excluding valuation changes in 2012 against a -€252.3m financial result (which included a €35.6m one off from compounding of the convertible). In order to further breakout recurring cash flow streams we remove all one off items (project disposals, developments, changes in inventories, etc) and plug in our 2013e Net Rent forecast including income from The SQUAIRE. Holding other lines constant we come to a 2013e cash EBIT forecast of €181m.

Table 3: IVG 2013e Cash EBIT estimate (€m)

	Real Estate	Caverns	Inst' Funds	Private Funds	IVG Corporate Functions	Consolidation	Group Level
Total Rev	**259.6**	**24.0**	**52.6**	**5.1**	**32.8**	**-32.8**	**341**
Net rents from Prop	216.3	2	0	0.0	0	-0.6	218
Other net rents	2.8	0	0	0.0	0.5	-4.1	-1
Service charge	39.1	0	0	0.0	0.1	-0.8	38
Project disposals							0
Construction contracts							0
Transactions, concepts, sales							0
Fund and property management		15.4	52.6	4.9	2.8	0.1	76
Other revenues	1.4	6.6	0	0.2	29.4	-27.4	10
Change in inventories							
Unrealised mkt value changes							
Realised changes in mkt value							
other operating income	15.3	6	4	2.8	19.5	-20	28
Material Expenses	-1.4	-13.9	-0.2	-0.1	-1.1	1.2	-16
Personnel expenses	-2.3	-8	-14.4	-3.6	-47.4	0	-76
Depreciation and amort							0
Expenses from property	-68.0	0	0	0.0	0	0.1	-68
other operating expenses	-0.4	-7.8	-26.6	-6.5	-36.7	51.7	-26
equity method gains / losses	-5.9	0	0.1	0.0	0	0	-6
Income from share investments	3	0	0	0.1	0	0	3
	-64.1	**-23.7**	**-37.1**	**-7.3**	**-65.7**	**33.0**	**-161**
					0		
Segment EBIT (cash)	**195.5**	**0.3**	**15.5**	**-2.2**	**-32.9**	**0.2**	**180.8**

Source: Company reports, JPMorgan Estimates. Includes rental income from SQUAIRE in real estate and assumes all developments sold and division shut down

If a restructuring of the liabilities is somehow successful in creating a 50:50 D/E structure, based on €4,500m of assets and a 3.5% cost of debt, the interest bill of €79m would leave €102m NPBT for equity holders or a 4.5% ROE assuming prior tax losses can be utilized or a G-REIT status is obtained. The weighted average Adj Earnings Yield of the continent is 5.9%, indicating an equity value of €1,730m or a discount to NAV of 23%.

Table 4: Implied Discount to NAV by 5.9% Continent Adj EPS yield

Assets	**4,500**
LTV	50%
Debt	2250
Interest expense at	
3.00%	68
3.50%	79
4.00%	90
4.50%	101
2013 EBIT	181
NP at	
3.00%	114
3.50%	102
4.00%	91
4.50%	80
Discount to NAV at	
3.00%	-15%
3.50%	-23%
4.00%	-31%
4.50%	-40%

Source: J.P. Morgan estimates .Assuming REIT structure or carried forward tax losses

To shoehorn the existing €4,250m of senior debt into the above balance sheet, we estimate a debt to equity swap of €2,250m would be required. Existing shareholders would of course be wiped out. The new shareholders would own NAV of €2,250; however, if a public market exit was sought, we calculate a discount of at least 15% and more likely 20%+ would be required to attract public equity.

2. No value for equity holders

We value IVG firstly as a going concern using our EVA based European Valuation Model and find a negative fair value, capped at zero. We also perform a scenario analysis and find that even a bull case scenario is not much help, with assets unable to cover liabilities under a break up of the company, again implying zero value for the ordinary equity.

Target Price €0.01

We have conducted DCF analysis of IVG's property portfolios and given balance sheet value for the remaining business lines (Caverns, Funds Management, Development) and worked the implied capital returns though our EVA-based European Valuation Model. Due to the above described low operating returns and our DCF implied forecast for negative capital growth, IVG has a -5.6% Value Creation spread over our forecast period, and in our view would not be able to survive under its current structure as the value destroyed over our forecast period is greater than our NAV forecasts, resulting in a negative Fair Value which we cap to the downside at zero. We therefore assign a new Price Target of €0.01 per share under the current structure.

Table 5: JPM EVA based valuation model

Name	Price	NNAV t+1	Premium	Operating return	Capital return	Total return	WACC	Spread	Assigned value t+1	Upside	Target price	Upside to target price	Div Yield	Total return
IVG	0.6	2.0	-70.6%	1.5%	0.4%	1.9%	7.4%	-5.6%	0.0	-100%	0.01	-98.3%	0.0%	0.0%

Source: J.P. Morgan estimates, Company data.

IVG's Portfolio faces challenges

- Of IVG's 134 properties as at FY12, 50% are valued below €10m and 78% are valued below €25m. Generally speaking, a portfolio made up of a large number of small assets is more expensive to manage versus a portfolio of larger, few assets. Furthermore, there is currently very little demand for small lot size properties in Germany.
- In our view, there are just six assets (in the Real Estate Portfolio) likely to appeal to institutional buyers, which we determine by ideally having value >€100m, WAULT in excess of 5 years and occupancy <90%. These assets are in total worth €981m.

Table 6: IVG Assets worth more than €100m per site (€m)

Frankfurt	Occupancy	WAULT	Fair value	NOI Yield
Frankfurt/Main Theodor- Stern-Kai	89.6%	7.2	243	4.8
Stuttgart, Buschlestr 1	95.9%	7.6	199	5.4
Stuttgart, Uhlandstr. 2	99.3%	7.4	131	5.6
			572	
Munich				
St Martin Str	100.0%	4.2	110	6.0
Fritz Schaffer Str	100.0%	8	169	5.5
Rosenheimer Str 145*	95.8%	3.1	130	6.4
			409	

Source: Company reports and J.P. Morgan estimates. *Held in a fund.

- The €2.25bn core portfolio is reasonably well valued based on our DCF parameters (-8% base case revaluation implied), with a NOI yield of 5.8%, WAULT of 5 years and occupancy of 93%.
- The 'Value Add' portfolio drives the rental growth through leasing up of vacancy; in 2012 16% lfl rental growth was recorded vs -0.2% in the Core. However, with a WAULT of 2.5 years, occupancy of around 70% and an NOI yield of 5.3% a sale will likely be extremely difficult. Furthermore, 57 of the 62 properties are <€25m lot size.
- The 'Workout Portfolios' include items such as polluted woodland, and as we view the Value add portfolio as being difficult to sell in the current market, we write the Workout portfolio down in line with our estimates for the Value Add portfolio on the basis that this portfolio is 'at least as bad' however it may be impossible to sell in the current market.

We believe the above has implications for any investors looking to gain control of the assets through buying either senior debt or the convertible. IVG's portfolio appears to be short on quality, with only a handful of assets likely to attract institutional interest and the bulk at best requiring a heavy discount and at worst unmarketable. Therefore even though nominally it appears that the assets cover the senior debt of €4,200m, achieving a sale price at this level may be challenging.

Table 7: IVG Balance Sheet JPM base case assumed values (€m)

	IVG Book Value	JPM Value
Core Portfolio	2,249	2,063
Value Add Portfolio	690	394
Workout Portfolio	254	145
Portfolio other	48	48
The SQUAIRE	807	663
The SQUAIRE parking	53	53
Real Estate	**4,101**	**3,366**
Other development	139	139
Fund equity stakes	180	180
Caverns	792	456
Institutional Funds	272	272
Private Funds	41	0
Group Level	270	270
	1,694	**1,317**
Total Assets	**5,795**	**4,683**

Source: Company reports, JPMorgan Estimates

Base Case leaves nothing for the ordinary equity

Our base case Balance Sheet value of €4,683m appears to cover the €4,200m of senior debt (including the €400m convertible) and the hybrid (€400m, ranked above the ordinary equity in seniority) likely *leaving nothing for the ordinary equity*. Again we reiterate our view that IVG's portfolio quality deteriorates after the first €1,000m-€2,000m of property, and although even at written down values the debt appears nominally covered, a sales process might still be difficult.

Bull case scenario is not much help

We estimate a Bull case balance sheet value for IVG of €5,597m, still at a discount of €198m from 2012 values due to the over valuation of the Value Add and Workout portfolios. In our Bull case scenario we give full credit for the balance sheet value of

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53 future caverns, which we do not include in our Bear or Base case scenarios. In either case, the present value of the negative EVA spread over our forecast period is greater than the initial NAV, resulting in zero fair value on our EVM model.

Table 8: IVG Bull, Base and Bear Case Balance Sheet and Valuations (€m)

	JPM Bull	JPM Base	JPM Bear
Core Portfolio	2,342	2,063	1,796
Value Add Portfolio	510	394	350
Workout Portfolio	188	145	129
Portfolio other	48	48	48
The SQUAIRE	763	663	581
The SQUAIRE parking	53	53	53
Real Estate	**3,903**	**3,366**	**2,957**
Other development	139	139	69.5
Fund equity stakes	180	180	180
Caverns	792	456	456
Institutional Funds	272	272	136
Private Funds	41	0	0
Group Level	270	270	150
	1,694	**1,317**	**992**
Total Assets	**5,597**	**4,683**	**3,948**
Potential Target Price (€)	0.01	0.01	0.01
Different to 2012 Book Value	198	1,112	1,847
Upside/Downside	**-99%**	**-99%**	**-99%**

Source: J.P. Morgan estimates, Company data.

Core portfolio

Our Bull scenario assumes higher market rental growth, higher indexation, less over-renting, a lower cost of debt and a lower required return versus our Base scenario. We find that even under a Bull scenario, the portfolio gains only 4.16% in value to €2,342m, a gain of €93m and not enough to offset the Value Add portfolio decline.

Table 9: IVG Core Portfolio Analysis (€m)

DCF input	**Bull**	**Base**	**Bear**
Rental growth 2013E	1.00%	0.00%	0.00%
Rental growth 2014E	1.00%	0.00%	0.00%
Rental growth 2015E	2.00%	1.00%	1.00%
Rental growth 2016E	2.00%	2.00%	1.00%
Avg Rental growth 10y (p.a.)	1.80%	1.50%	0.80%
Avg Cash flow growth 10y (p.a.)	0.88%	-0.03%	-1.09%
Initial yield Dec-2012	5.51%	5.51%	5.51%
Exit rate in 10 years	6.00%	6.00%	6.00%
Cost of debt	3.50%	4.00%	4.50%
Required rate of return on equity	6.00%	7.00%	8.00%
WACC (Weighted Average Cost of Capital)	4.75%	5.50%	6.25%
DCF output			
Future initial yield	5.27%	5.99%	6.91%
Change in initial yield	-0.24%	0.48%	1.40%
10 year income growth (CAGR)	0.53%	-0.53%	-1.62%
12m capital growth	**4.16%**	**-8.27%**	**-20.16%**
Valuation gain after year 1 (p.a.)	-0.43%	-0.21%	0.12%
5 year capital growth (CAGR)	0.47%	-1.88%	-4.31%

Source: Company reports and J.P. Morgan estimates.

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Value Add & Workout Portfolio

We apply the Value Add implied valuation changes in each scenario to the Workout Portfolio as well, on the assumption that the Workout Portfolio is at least as challenging as the Value Add. Given the shorter lease length (2.5 years vs 5.1 years for the Core), lower occupancy (26% vs 7%) and smaller lot size (75% of buildings <€10m), we believe an investor will require a higher return than the more secure Core portfolio. Under our Bull case we use a lower cost of debt at 4% (5% for base) and higher rental growth as shown in the below table. However, because of the low initial yield of the portfolio at 5.12%, even the Bull case produces a -26% or -€180m writedown.

Table 10: IVG Value Add Portfolio Scenario Analysis (€m)

DCF input	Bull	Base	Bear
Rental growth 2013E	2.00%	0.00%	0.00%
Rental growth 2014E	2.00%	0.00%	0.00%
Rental growth 2015E	3.00%	0.00%	0.00%
Rental growth 2016E	3.00%	0.00%	0.00%
Avg Rental growth 10y (p.a.)	2.80%	1.00%	1.00%
Avg Cash flow growth 10y (p.a.)	2.84%	0.05%	-0.50%
Initial yield Dec-2012	5.12%	5.12%	5.12%
Exit rate in 10 years	7.00%	7.00%	7.00%
Cost of debt	4.00%	5.00%	6.00%
Required rate of return on equity	10.00%	10.00%	10.00%
WACC (Weighted Average Cost of Capital)	7.00%	7.50%	8.00%
DCF output			
Future initial yield	7.05%	9.47%	10.72%
Change in initial yield	1.93%	4.35%	5.60%
10 year income growth (CAGR)	0.83%	-0.44%	-1.62%
12m capital growth	**-26.15%**	**-42.95%**	**-49.23%**
Valuation gain after year 1 (p.a.)	1.25%	2.97%	3.02%
5 year capital growth (CAGR)	-4.94%	-8.50%	-10.58%

Source: Company reports and J.P. Morgan estimates.

When we apply the capital growth figures to the Workout portfolio we arrive at valuations of €188m,€145m and €129m respectively for the Bull, Base and Bear scenarios.

The SQUAIRE: Even the Bull Case can't get to the €800m Book Value

Under our Bull scenario we arrive at a valuation for The SQUAIRE of €763m versus a 2012 book value of €800m. Our Bull scenario includes average rental growth of 1.8%, a cost of debt of 3.5% and a required return of 6% along with indexation of 1.7% initial increasing to 2.5% in year 3. Furthermore, we assume that occupancy is increased to 98% in year 1 from 86% currently.

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Table 11: The SQUAIRE DCF Scenario analysis (€m)

DCF input	Bull	Base	Bear
Rental growth 2013E	1.00%	0.00%	0.00%
Rental growth 2014E	1.00%	0.00%	0.00%
Rental growth 2015E	2.00%	1.00%	1.00%
Rental growth 2016E	2.00%	2.00%	1.00%
Avg Rental growth 10y (p.a.)	1.80%	1.50%	0.80%
Avg Cash flow growth 10y (p.a.)	3.25%	2.20%	1.18%
Initial yield Dec-2012	4.04%	4.04%	4.04%
Exit rate in 10 years	6.00%	6.00%	6.00%
Cost of debt	3.50%	4.00%	4.50%
Required rate of return on equity	6.00%	7.00%	8.00%
WACC (Weighted Average Cost of Capital)	4.75%	5.50%	6.25%
DCF output			
Future initial yield	4.15%	4.83%	5.58%
Change in initial yield	0.12%	0.79%	1.54%
10 year income growth (CAGR)	1.45%	1.10%	0.60%
12m capital growth	**-4.67%**	**-17.13%**	**-27.40%**
Valuation gain after year 1 (p.a.)	-1.88%	-0.73%	0.22%
5 year capital growth (CAGR)	-2.44%	-4.25%	-6.04%

Source: J.P. Morgan estimates, Company data.

The Caverns, can IVG build out the pipeline from its current position

The €792m balance sheet valuation of the Caverns business breaks down into:

- 12 pre let caverns under construction to be sold to Cavern Funds I valued at €264m
- 6 Caverns to be sold to Caverns Funds II worth €192m
- 54 future cavern options with a cost of €264m. Of these one is pre-let and pre-sold to Cavern Funds II.

In all scenarios we attribute 100% valuation to the 12 caverns sold to Cavern Funds I of €264m and the six caverns to be sold to Cavern Funds II of €192m. The final sales take place in 2017 of the pre let pipeline and costs to complete are €50m.

In our Bull scenario we give full value to the €264m for the future caverns, however in our Base Case and Bear Case we deduct this value because under IVG's current structure, the €500m required capex to develop these sites looks unlikely to be raised. Furthermore, at the FY12 results, IVG commented that the environment for gas storage is being negatively impacted by new technologies such as fracking, new pipelines from distant fields, and lower overall demand due to lower economic growth increasing uncertainty amongst tenants and making them less willing to commit to 20-30 year rental contracts.

Development, Funds Management and Other

The remaining development assets in France, Poland and Hungary are valued at €139m on the balance sheet. We take this valuation in our Bull and Base scenarios, and discount it by 50% under our Bear scenario. We leave the Institutional Funds Management value level at €272m throughout, as per the 2012 balance sheet value and only take the full value for Private Funds in our Bull Case as we expect deal flow to reduce going forward. Of the Group Level assets, we only discount these in our Bear Scenario, taking only the cash of €150m.

Investment Thesis, Valuation and Risks

IVG Immobilien *(Underweight; Price Target: €0.01)*

Investment Thesis

We are Underweight IVG. Management announced a 'holistic restructuring' at the FY12 results, implying that all capital stakeholders will need to take a loss. Given the seniority and covenant structure of the €4,250m debt of IVG, it is unlikely that any value will remain for the existing ordinary shareholders.

Valuation

Our EVA based European Valuation Model implies zero value for IVG ordinary equity as a going concern, and not even a bull case scenario creates equity on the balance sheet. We therefore lower our Mar-14 EVM based price target from €2.22 to €0.01. Our Mar-14 target price for IVG is based on our total returns-based European Valuation Model, which takes into account whether a company creates or destroys value. We argue that companies that have a positive spread between returns and their weighted average cost of capital (WACC) should trade at a premium to NNAV, whereas those with a negative spread should be priced below NNAV. For IVG, we calculate a value creation spread of -5.6% between our forecast total return and our WACC estimate. We apply this spread to the invested capital, discount back, and add/subtract to our NNAV forecast to derive our price target.

Risks to Rating and Price Target

Upside risks include a capital contribution from a third party or greater than expected willingness from senior debt holders to swap their debt positions into equity. Any change in property valuations will have a substantial impact on NAV due to the high leverage, both on the upside and the downside.

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IVG Immobilien: Summary of Financials

Profit and Loss Statement

€ in millions, year end Dec	FY12	FY13E	FY14E	
Property income	438	386	398	-
% Change Y/Y	*5.0%*	*(11.8%)*	*3.1%*	-
Rental income	270	224	235	-
Other income	167	162	163	-
EBITDA	131	74	81	-
% Change Y/Y	*19.5%*	*-43.6%*	*9.1%*	-
Net interest	(252)	(209)	(208)	-
Earnings before tax	(142)	(135)	(128)	-
% change Y/Y	*91.9%*	*-4.9%*	*-5.3%*	-
Tax	(12)	0	0	-
as % of EBT	*(8.3%)*	*0.0%*	*0.0%*	-
Minorities	0	0	0	-
Adjusted net income	**-153**	**-135**	**-127**	**-**
% change Y/Y	*17.8%*	*(12.3%)*	*(5.3%)*	-
Revaluation	64	-683	0	-
Capital gain tax	0	0	0	-
Other	0	0	0	-
Minorities	0	0	0	-
Indirect profit	**55**	**-650**	**33**	**-**
Total profit (IFRS)	**-99**	**-785**	**-94**	**-**

Per share data

€ in millions, year end Dec	FY12	FY13E	FY14E	
Adjusted EPS	(0.66)	(0.57)	(0.54)	-
% change Y/Y	*-3.3%*	*-13.3%*	*-5.8%*	-
Indirect result	0.26	(3.03)	0.15	-
% change Y/Y	*(260.5%)*	*(1287.5%)*	*(105.1%)*	-
EPS (IFRS)	(0.40)	(3.61)	(0.39)	-
% change Y/Y	*-51.9%*	*790.8%*	*-89.3%*	-
DPS	0.00	0.00	0.00	-
% change Y/Y	-	-	-	-
Gross cash flow	-0.64	-0.56	-0.52	-
% change Y/Y	*-7.9%*	*-13.6%*	*-6.0%*	-
NNNAV (IFRS)	4.6	1.5	1.2	-
% change Y/Y	*(12.2%)*	*(68.2%)*	*(15.8%)*	-
Adjusted NAV	3.3	0.1	(0.1)	-
% change Y/Y	*(11.0%)*	*(96.9%)*	*(232.7%)*	-

Cash flow statement

	FY12	FY13E	FY14E	
EBITDA	131	74	81	-
Gross cash flow	-101	-87	-78	-
Net cash flow	56	13	(35)	-
Total cash flow requirement	**56**	**13**	**-35**	**-**

Balance Sheet

€ in millions, year end Dec	FY12	FY13E	FY14E	
Cash and cash equivalents	142	142	142	-
Accounts receivable	190	190	190	-
Others	1,032	336	336	-
Current assets	1,364	668	668	-
Property investments	3,654	3,667	3,667	-
Property not in operation	190	175	160	-
Total assets	**6,131**	**5,432**	**5,417**	**-**
Short term debt	1,089	1,089	1,089	-
Others	317	317	317	-
Total current liabilities	1,405	1,405	1,405	-
Long term debt	3,237	3,224	3,259	-
Other liabilities	672	672	672	-
Shareholders' equity				
Group equity	875	190	139	-
Total liabilities and equity	**6,131**	**5,432**	**5,417**	**-**

Ratio Analysis

€ in millions, year end Dec	FY12	FY13E	FY14E	
Operating return	1.8%	1.4%	1.7%	-
Capital return	1.1%	-13.0%	0.0%	-
ROIC	2.9%	-11.6%	1.7%	-
WACC	7.4%	7.4%	7.4%	-
EVA spread	-4.6%	-19.0%	-5.8%	-
ROE (recurring)	-16.5%	-25.3%	-77.4%	-
ROE (total)	-10.6%	-147.5%	-57.4%	-
Net debt / total assets	74.8%	84.1%	85.0%	-
Net debt/ equity	526.5%	2459.4%	3400.8%	-
Equity / assets	14.3%	3.5%	2.6%	-
Property income / assets	7.1%	7.1%	7.3%	-
Rental income / assets	4.4%	4.1%	4.3%	-
EBITDA / assets	2.1%	1.4%	1.5%	-
% change Y/Y	*34.5%*	*(36.3%)*	*9.4%*	-

Source: Company reports and J.P. Morgan estimates.

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JPM Q-Profile

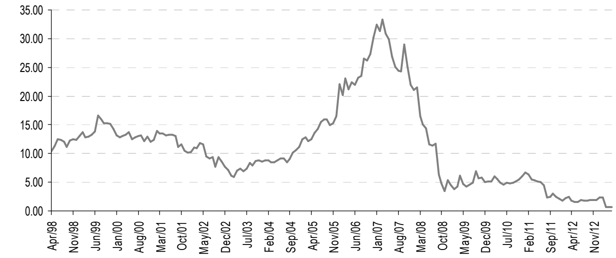
IVG Immobilien AG (GERMANY / Financials)

As Of: 02-May-2013

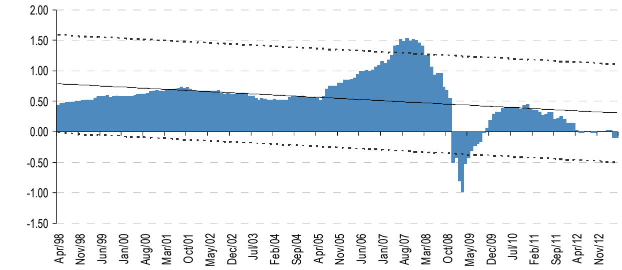
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

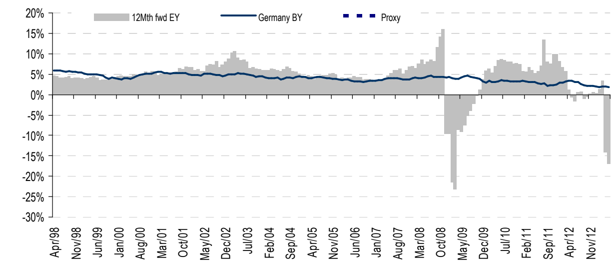
Local Share Price Current: 0.64



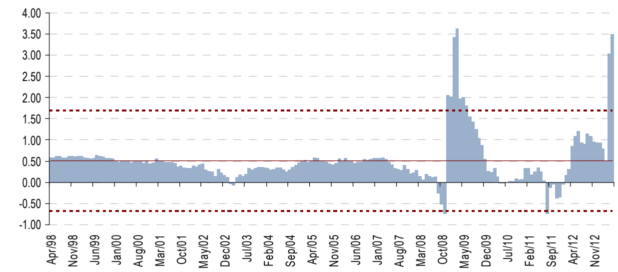
12 Mth Forward EPS Current: -0.11



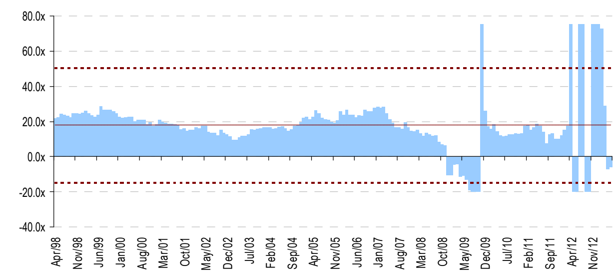
Earnings Yield (& local bond Yield) Current: -17%



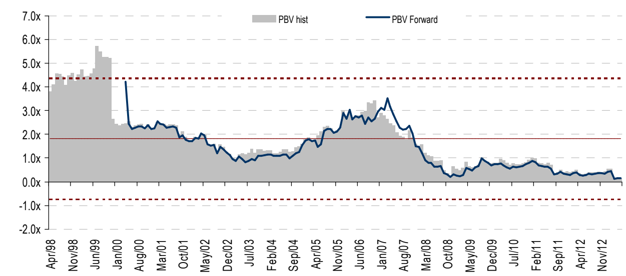
Implied Value Of Growth* Current: 349.67%



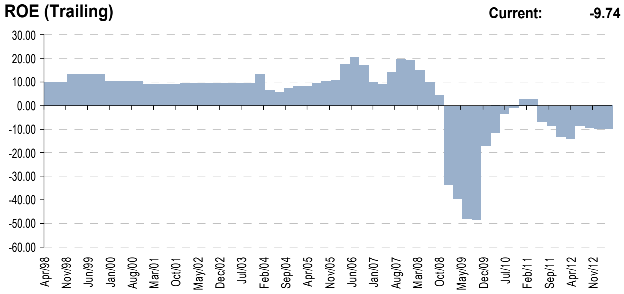
PE (1Yr Forward) Current: -5.9x



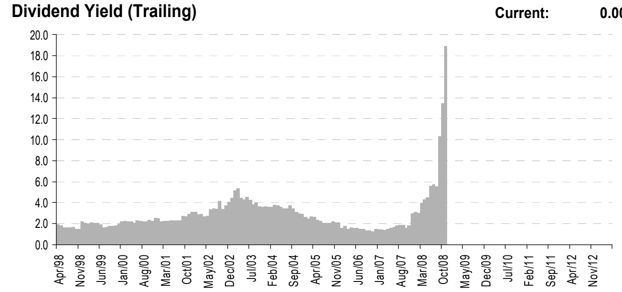
Price/Book Value Current: 0.2x



ROE (Trailing) Current: -9.74



Dividend Yield (Trailing) Current: 0.00



Summary

IVG Immobilien AG								As Of:			2-May-13
GERMANY	SEDOL	5740378						Local Price:			0.64
Financials								EPS:			-0.11
	Latest	**Min**	**Max**	**Median**	**Average**	**2 S.D.+**	**2 S.D. -**	**% to Min**	**% to Max**	**% to Med**	**% to Avg**
12mth Forward PE	**-5.89x**	-20.00	75.00	17.49	17.82	50.39	-14.74	-240%	1374%	397%	403%
P/BV (Trailing)	**0.15x**	0.15	5.73	1.56	1.83	4.39	-0.73	0%	3697%	935%	1111%
Dividend Yield (Trailing)	**0.00**	0.00	18.92	1.97	2.06	6.49	-2.38				
ROE (Trailing)	**-9.74**	-48.34	20.47	9.37	3.15	33.33	-27.03	-396%	310%	196%	132%
Implied Value of Growth	**349.7%**	-0.74	3.61	0.46	0.51	1.70	-0.67	-121%	3%	-87%	-85%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

** Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity =Bond Yield + 5.0% (ERP)*

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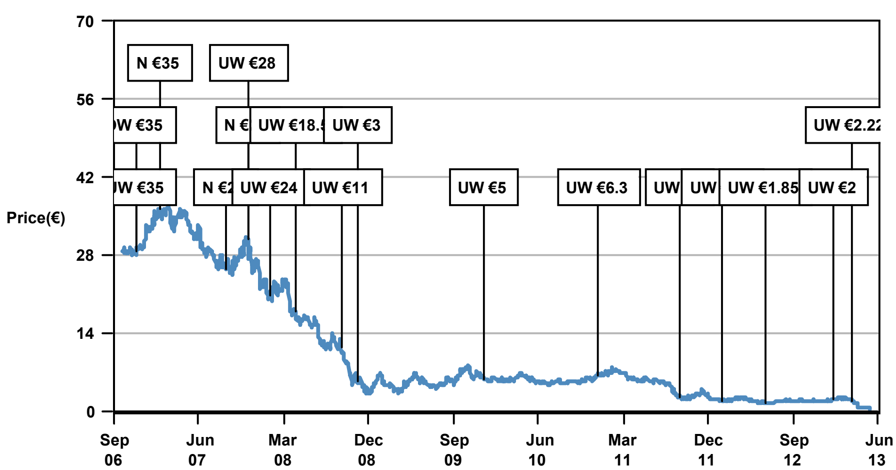
IVG Immobilien (IVGG.DE, IVG GR) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Nov 08, 2006.

Date	Rating	Share Price (€)	Price Target (€)
08-Nov-06	UW	28.57	35.00
09-Nov-06	OW	29.00	35.00
25-Jan-07	N	36.25	35.00
31-Aug-07	N	25.49	27.00
06-Nov-07	N	30.96	28.00
07-Nov-07	UW	30.96	28.00
15-Jan-08	UW	20.79	24.00
07-Apr-08	UW	17.90	18.50
03-Sep-08	UW	11.35	11.00
30-Oct-08	UW	5.21	3.00
09-Dec-09	UW	5.86	5.00
07-Dec-10	UW	6.47	6.30
30-Aug-11	UW	2.55	3.00
11-Jan-12	UW	1.97	2.40
01-Jun-12	UW	1.61	1.85
08-Jan-13	UW	2.19	2.00
06-Mar-13	UW	1.83	2.22

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IB clients*	54%	47%	38%
JPMS Equity Research Coverage	42%	50%	9%
IB clients*	74%	64%	57%

*Percentage of investment banking clients in each rating category.
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