



## Magnat acquires R-Quadrat: important step for Magnat, earnings enhancing

### Ralf Groenemeyer

groenemeyer@silviaquandt.de

+49 (0) 69 95 92 90 93 06

<b>Rating: Buy</b>	<b>Target price: €8.33</b>	<b>Close 08/09/09: €4.64</b>	<b>RIC: M5RK DE</b>
--------------------	----------------------------	------------------------------	---------------------

- **Magnat REOP KGaA acquires its asset manager in an all share, non-cash transaction**
- **Magnat will consolidate cash earnings to the tune of €3 – 5m annually**
- **Magnat to become asset manager for 3<sup>rd</sup> parties**
- **Magnat converts into a joint stock company from KGaA structure**

Magnat announced this morning to internalize its asset manager R-Quadrat. Through a contribution in kind, Magnat will acquire all of R-Quadrat against owns shares at a price of €3.44/Magnat share (average share price of the past 90 days).

As the value of the R-Quadrat group has been determined at €29.6m by an independent auditor. Magnat will issue 8.6m new shares, more than doubling its currently outstanding shares from 5.29m to 13.89m. There will be no subscription rights, as it is a contribution in kind.

R-Quadrat shareholders will receive through this transaction a majority in Magnat and will hold 62% of the new outstanding shares. Altira, which holds 22.5% in R-Quadrat, will become a direct 14% shareholder in Magnat.

Magnat will hold an AGM on October 29<sup>th</sup>, allowing its shareholders to decide on the measure.

R-Quadrat will bring substantial cash fee income to the party: While the management fees, which Magnat had to pay so far, will no longer be a cash drain for Magnat, it will receive asset management fees for

- Squadra (equity capital €25.5m),
- RQCA Bond (€22.5m),
- RQCB Bond (€24.5m),
- RQCA Bond (€10m) and
- the new HYRD Bond (€100-300m).

In addition to the management fees, which are based on the nominal capital, R-Quadrat receives performance fees. Most of the bonds expire between 2012 and 2014, providing Magnat with around 5 years of fee income. Currently, R-Quadrat manages assets worth €500m, suggesting normalized annual fee income in the range of €3 – 5m. Magnat plans to expand the asset management for 3<sup>rd</sup> parties significantly.

Why this deal?

- Effectively, Magnat integrates all of its expertise under its own umbrella, as a benefit to its shareholders. The integration allows Magnat to enter the attractive business field of asset management for 3<sup>rd</sup> parties, which it now can offer with a great sample of successful deals, particularly in the CEE countries and in Germany.
- In addition, Magnat increases its cash earnings potential, as the transaction would be against shares, while the cash flow from R-Quadrat would increase its cash earnings for about half of this business year and contribute fully as of 2010/11.
- Magnat and R-Quadrat operate together for years, which will allow for a swift and effective integration process.

**Comment:**

**Major transaction for Magnat:**

**while the company has equity of €94.6m and an NAV of €16.30, its cash earnings were insignificant. In fact, 2008/09 net earnings were negative to the tune of €6.5m. R-Quadrat, by contrast, has little assets, but strong cash generation due to recurring fee income and high performance fee income. R-Quadrat's business includes the management of developments of high margin homes in Austria and development projects in CEE countries, in addition to activities in Germany.**

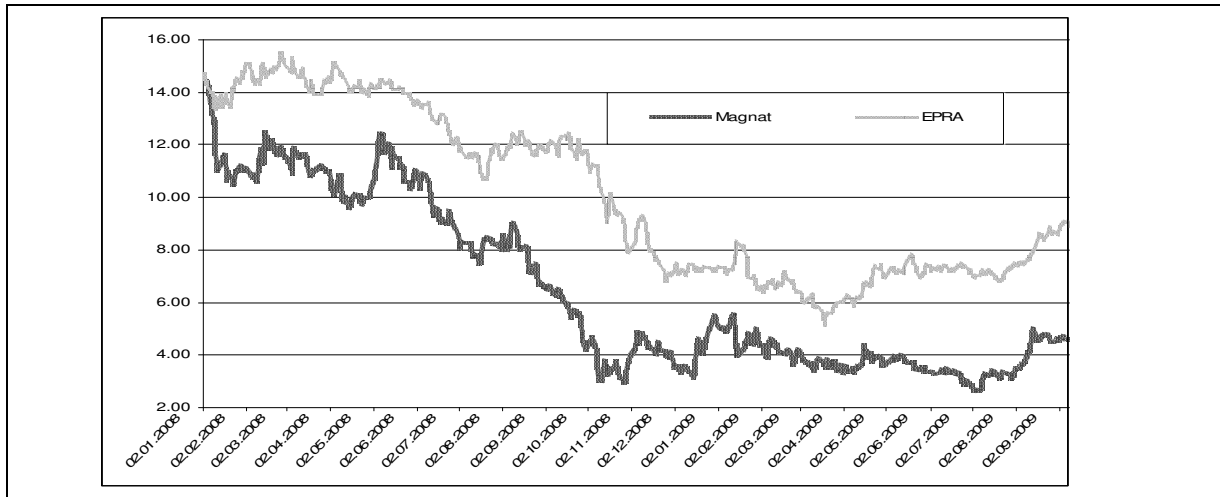
**The deal will immediately push Magnat into positive cash earnings from management fee income.**

**Also, the transaction allows Magnat converting its KGaA structure into an AG structure, which increases transparency.**

**We remain positive for Magnat and re-iterate our Buy recommendation. We will adjust our target price (under review) on the back of further information provided. Based on the transaction, the 'new' Magnat NAV would come in at €8.33/share, which would provide a first guideline for a target price.**

**However, as the business model now includes significant earnings contributions from 3<sup>rd</sup> party asset management, a pure NAV based target price should no longer be applicable.**

---



Sales/Trading: Frankfurt/M. +49 (0) 69 95 92 90 93 33 London +44 (0) 20 78 26 85 66  
www.silviaquandt.de

**Disclaimer**

This analysis was prepared by Ralf Groenemeyer, Head of Strategy and Finance/Real Estate, and was first published 8 September 2009, Silvia Quandt Research GmbH, Grüneburgweg 18, 60322 Frankfurt is responsible for its preparation. German Regulatory Authority: Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Str. 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt.

Publication according to article 5 (4) no. 3 of the German Regulation concerning the analysis of financial instruments (Finanzanalyseverordnung):

Number of recommendations from Silvia Quandt Research GmbH in 2009	Thereof recommendations for issuers to which investment banking services were provided during the preceding twelve months
31 buys	8
4 neutral	1
4 avoids	0

**Company disclosures**

Article 34b of the German Securities Trading Act (Wertpapierhandelsgesetz) in combination with the German regulation concerning the analysis of financial instruments (Finanzanalyseverordnung) requires an enterprise preparing a securities analysis to point out possible conflicts of interest with respect to the company or companies that are the subject of the analysis. A conflict of interest is presumed to exist, in particular, if an enterprise preparing a securities analysis:

- (a) holds more than 5 % of the share capital of the company or companies analysed;
- (b) has lead managed or co-lead managed a public offering of the securities of the company or companies in the previous 12 months;
- (c) has provided investment banking services for the company or companies analysed during the last 12 months for which a compensation has been or will be paid;
- (d) is serving as a liquidity provider for the company's securities by issuing buy and sell orders;
- (e) is party to an agreement with the company or companies that is the subject of the analysis relating to the production of the recommendation;
- (f) or the analyst covering the issue has other significant financial interests with respect to the company or companies that are the subject

of this analysis, for example holding a seat on the company's boards.

In this respective analysis the following of the above-mentioned conflicts of interests exist: a, b, c, d

Silvia Quandt Research GmbH, Silvia Quandt & Cie. AG, and its affiliated companies regularly hold shares of the analysed company or companies in their trading portfolios. The views expressed in this analysis reflect the personal views of the analyst about the subject securities or issuers. No part of the analyst's compensation was, is or will be directly or indirectly tied to the specific recommendations or views expressed in this analysis. It has not been determined in advance whether and at what intervals this report will be updated.

**Equity Recommendation Definitions** Silvia Quandt Research GmbH analysts rate the shares of the companies they cover on an absolute basis using a 6 - 12-month target price. 'Buys' assume an upside of more than 20 % from the current price during the following 6 - 12-months. These securities are expected to out-perform their respective sector indices. Securities with an expected under-performance to their respective sector index are rated 'avoids'. Securities where the current share price is within a 5 % range of the sector performance are rated 'neutral'. Securities prices used in this report are closing prices of the day before publication unless a different date is stated. With regard to unlisted securities median market prices are used based on various important broker sources (OTC-Market).

**Disclaimer** This publication has been prepared and published by Silvia Quandt Research GmbH, a subsidiary of Silvia Quandt & Cie. AG. This publication is intended solely for distribution to professional and business customers of Silvia Quandt & Cie. AG. It is not intended to be distributed to private investors or private customers. Any information in this report is based on data obtained from publicly available information and sources considered to be reliable, but no representations or guarantees are made by Silvia Quandt Research GmbH with regard to the accuracy or completeness of the data or information contained in this report. The opinions and estimates contained herein constitute our best judgement at this date and time, and are subject to change without notice. Prior to this publication, the analysis has not been communicated to the analysed companies and changed subsequently. This report is for information purposes only; it is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the securities mentioned in this report. In compliance with statutory and regulatory provisions, Silvia Quandt & Cie. AG and Silvia Quandt Research GmbH have set up effective organisational and administrative arrangements to prevent and avoid possible conflicts of interests in preparing and transmitting analyses. These include, in particular, inhouse

information barriers (Chinese walls). These information barriers apply to any information which is not publicly available and to which any of Silvia Quandt & Cie. AG and Silvia Quandt Research GmbH or its affiliates may have access from a business relationship with the issuer. For statutory or contractual reasons, this information may not be used in an analysis of the securities and is therefore not included in this report. Silvia Quandt & Cie. AG and Silvia Quandt Research GmbH, its affiliates and/or clients may conduct or may have conducted transactions for their own account or for the account of other parties with respect to the securities mentioned in this report or related investments before the recipient has received this report. Silvia Quandt & Cie. AG and Silvia Quandt Research GmbH or its affiliates, its executives, managers and employees may hold shares or positions, possibly even short sale positions, in securities mentioned in this report or in related investments. Silvia Quandt & Cie. AG in particular may provide banking or other advisory services to interested parties. Neither Silvia Quandt Research GmbH, Silvia Quandt & Cie. AG or its affiliates nor any of its officers, shareholders or employees accept any liability for any direct or consequential loss arising from any use of this publication or its contents. Copyright and database rights protection exists in this publication and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Silvia Quandt Research GmbH. All rights reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investment decisions without relying on this publication. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this publication.

**Specific notices of possible conflicts of interest with respect to issuers or securities forming the subject of this report according to US or English law: None**

**This publication is issued in the United Kingdom only to persons described in Articles 19, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and is not intended to be distributed, directly or indirectly, to any other class of persons (including private investors). Neither this publication nor any copy of it may be taken or transmitted into the United States of America or distributed, directly or indirectly, in the United States of America.**

Frankfurt am Main, 8 September 2009

**Silvia Quandt Research GmbH**

Grüneburgweg 18  
60322 Frankfurt

Tel: + 49 69 95 92 90 93 -0

Fax: + 49 69 95 92 90 93 - 11