MainFirst Bank AG

Vivacon AG

Buy

Do you see the light?

Price: EUR 40.0
(22 April 2005)

Target: EUR 55.0 (+37.5%)
Alert: EUR 35.0

Year to Dec (€)	Income (m)	Net profit rep. (m)	EPS rep.	EPS adj.*	NAVPS adj.*	P/E rep.	P/E adj.*	P/NAV adj.*	DPS	Yield (%)
2004	111	7	0.67	0.95	3.5	6.8	4.8	1.3	0.00	0.0
2005	118	24	1.39	1.60	6.2	12.3	10.7	2.7	0.00	0.0
2006E	195	46	2.41	2.71	8.3	16.6	14.8	4.8	0.00	0.0
2007E	248	67	3.52	3.88	11.8	11.4	10.3	3.4	0.00	0.0
2008E	275	74	3.87	4.28	16.4	10.3	9.3	2.4	0.97	2.4
CAGR 05-08E (%)	*32.5*	*45.2*	*40.7*	*38.8*	*38.0*				*n/m*	

(*) adjusted for goodwill, capital gains and exceptional items

Source: Company accounts, Main*First* estimates

Event:

Vivacon sits in the sweet spot of German real estate. Their smart trading and active management of property assets is largely driven by the increasing number of new mainly institutional buyers willing to increase their exposure to recovering Germany.

Analysis / Investment Case:

Vivacon operates four business lines, namely (1) Leasehold Privatisation, (2) Institutional Trading, (3) Asset Management and (4) Leasehold Rights, all supporting a strong net profit CAGR 2005-2008E of 45%. We especially emphasise the opportunities from rising trading volumes and soaring international investments in German residential property. New business units like Asset Management and Yoo!Germany further leverage the business model and diversify Vivacon's revenue and asset base.

Valuation:

From our bottom-up analysis, Vivacon trades on just 11.4X 2007E earnings, a massive and unjustified discount to its sector peers. Our Sum-Of-The-Parts-valuation coupled with a detailed peer group analysis easily lifts our fair value to €55. This represents 37.5% upside to yesterday's closing price. BUY.

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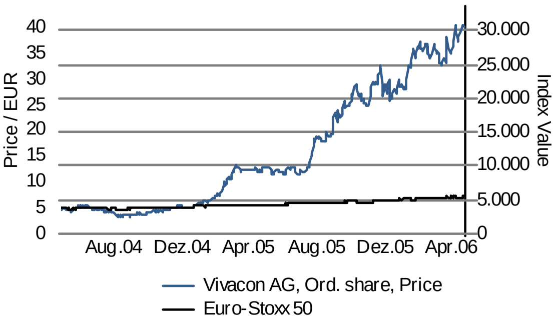
Bloomberg / Reuters codes:	VIA GY / VIVG.DE
Market cap (€ m), Free float:	€0.77bn (60%)
No. of shares (m)	19.19
Daily trading volume (m)	7.0
DJ EuroStoxx 50	5,437
Website	www.vivacon.de
Next Event	Q1 Results
Date	15 May 2006



Vivacon AG – Do you see the light?

Leasehold Privatisation – Creating today's living spaces

Leasehold Privatisation is the original core business of Vivacon which is focused on buying, refurbishing and selling attractive residential real estate assets. Unlike most of its peers, Vivacon does not initially own the residential unit it wants to privatise. The value added of its unique business model lies in the fact that Vivacon *creates* living space by converting listed objects and landmark buildings - mainly bought from state authorities - into modern and luxurious flats.

The company has a great track record in cherry-picking those assets and can rely on its strong ties and negotiation power with the local authorities to achieve strong new business volumes and a good entry price. Vivacon only starts projects when at least 70% of all assumed flats have been pre-sold and thus minimises execution risks. All the refurbishment work is outsourced to companies that have a long-term relationship (>10years) with Vivacon. This further reduces operational risks associated with the completion of projects and leads to a massive reduction in average execution time from buying to selling, which currently amounts to just 11 months on average for all of Vivacon's privatisation efforts so far.

Leasehold privatisation: very attractive tax breaks for investors separate Vivacon's superior business model from its peers…

The main attractiveness of the asset that Vivacon offers to the market is the high tax break. This is one of the last remaining tax loopholes in Germany since the various taxation changes and the abolition of the home-owner subsidies this year. For listed buildings, investors can benefit from very high depreciations as they are allowed to deduct up to 70% of the purchase cost from their tax bill (9% annual depreciation over 8 years plus another 7% over the remaining 4 years; §7i EStG and §10f EStG). Besides this, a professional investor of the refurbished asset will also be able to reap the benefits of (1) an up-to-date living space with little modernisation cost to cover over the coming years, (2) a very high occupation rate (99% +) and therefore highly predictable cash flows and (3) legal certainty as all rental contracts are pre-negotiated with the tenants.

Graph 1: Leasehold Privatisation segment: Before….

Source: Company website: www.vivacon.de

Graph 2: Leasehold Privatisation segment: ...and after Vivacon created a "new" building!

Source: Company website: www.vivacon.de

Vivacon: business model superior to peers....

Comparing Vivacon to peers like Patrizia we see why Vivacon's business model is more unique than the market assumes. Patrizia owns and acquires single real estate portfolios with an average size of 200 up to 1000 flats. This business model is to buy, refurbish and sell to single tenants at an affordable mortgage rate. This process is time-consuming, as Patrizia's process has to value every single apartment before offering the contract and to calculate a mortgage rate for each potential buyer. The offer will stay exclusive for the tenant for three months, whereas the lease contracts stays unchanged prior that time. After this period, the apartment can be offered to investors or other private individuals. The value created for the new owners remains limited, as existing lease contracts cannot be terminated under German law for the next three years. Also, rent increases are limited to max. 20% over the next three years and the new landlord is allowed to pass on just 11% of modernisation cost to the old tenant during that time. Albeit the average privatisation quota is not reported by the company, it is definitely much lower than Vivacon's >80% (some of Patrizia's projects reached c. 35% at best).

Philippe Starck design apartments: do Yoo! see the light?

Last year, Vivacon started its first design project (Dalmannkai, Hamburg) with Yoo!Germany, a company 50% co-owned by well-known designer Philippe Starck. Vivacon holds an exclusive licence for the development, realisation and distribution of Philippe Starck designed flats in Germany. This approach massively increases the average selling price of the flats traded within the Leasehold Privatisation segment, as design flats are usually sold at near €6,000/sqm compared to listed or landmark objects at c.€2,500/sqm. We regard the deal with Yoo!Germany as very smart as demand for high-end flats in very special and in "hip" city areas like the new "Harbour City project in Hamburg remains high and is anti-cyclical. This is shown by the amazing success of the running project, where Vivacon was able to sell 40% of the total 63 flats at an average price of c. €5,500 per sqm in Q4 2005 already. For the long term, Vivacon targets at least one project per year with a volume of c. €50m (Hamburg was c. €45m).

Not only does Vivacon record a nice gain on the sale of both listed objects and design apartments. It is also able to increase its proportion of recurring revenues as all projects undergo a legal separation of the building from the land (conversion from freehold to leasehold).Vivacon retains the land and charges a fee to the buyer (c. €0.85 per sqm per month for listed objects). The buyer receives the advantage of a much lower price (the land value typically accounts for max. 20% of the cost) and will have lower equity and financing needs for his real estate investment.

Leasehold Privatisation: adding value to all involved parties…

Finally, all involved parties should have advantages from Vivacon's process: (1) the state authority as the seller should have benefited from the experience of Vivacon to quietly manage its large sale process, (2) Vivacon achieves wholesale prices on entry with low execution risks and sells at retail prices with a nice gain and finally, (3) the buyer uses the lower price of the leasehold vs. the freehold agreement and benefits from the tax break for listed objects.

We think that Vivacon will continue to leverage on this attractive market segment and should be able to sell 550 flats in 2008E vs. just 299 flats in 2005. As not all projects are finalised within the current year, the revenue number always is lower than the recorded notarised volumes. This has been the case especially in 2005 where Vivacon was simply not able to sell the large proportion of new business won in Q4. This is why notarised volume was higher compared to 2004 (good pre-sell arte led to good contract volumes) but revenues were much lower (as payments and finalisation of the underlying project is still outstanding). All of the notarised volume not accounted for in 2005 will definitely come to the P&L this year ("safe" order backlog reported as per 31.12.2005: €54m). For more details, please see divisional models in the appendix.

Table 1: Leasehold Privatisation segment: "core" support to profits

	2004E	2005E	2006E	2007E	2008E
no. Flats traded (incl. Yoo)	376	299	400	500	550
o/w Yoo	0	25	63	68	75
Yoo of total (%)	0%	8%	16%	14%	14%
Avg. Selling price standard flat (€ thousands)	119.1	137.0	139.8	142.6	145.4
= "standard flat" not. Vols (€m)	44.8	37.5	47.1	61.6	69.1
Avg. Selling price Yoo flat (€ thousands)	0.0	700.0	671.0	671.0	671.0
= assumed "Yoo flat" not. vols (€m)	0	17.5	42.273	45.628	50.325
Total notarised volume (€m)	44.8	63.3	89.4	107.2	119.4
Total revenues (€m)	49.3	29.9	71.9	92.9	109.6
EBIT	1.5	1.3	6.9	9.6	11.8
EBIT margin	2.9%	4.5%	9.7%	10.3%	10.7%

Source: Company accounts, Main*First* estimates

Institutional Trading –packaging privatisation

This is the main trigger for Vivacon's future earnings. The company aims to generate a rising proportion of profits by buying and selling residential real estate blocks for interested international investors. Most of the acquired flats are traded within this segment (95% of the volume). Vivacon's value added lies in its long-term experience of the German real estate market and its deep roots into local authorities and good connections to the governments which allows the company to find and realise new projects much faster than the competition.

Institutional Trading: 2m flats coming to the market!

The market environment for these deals remains very favourable. Based on data from the German Federal Statistical Office, there are 38.7m residential flats available in Germany. The ownership ratio is very low at currently 41%. Given that the state and the German corporates will continue to reduce their real-estate exposure amidst a buoyant demand from underinvested international investors, we think that roughly 10% of the available flats (c. 23m in 2004) or 2m flats will come to the market until 2008.

All this is further boosted by two simple factors: (1) the possible tax relief for German corporates who want to sell their real estate assets to the market (directly or into a REIT) as it is planned to tax the realised gains at just half the usual tax rate and (2) Vivacon's policy of separating the land from the building which lowers the price for the original assets. Adding to this, the tax relief for the buyer (listed objects) and low interest rates will attract more demand in the future.

Table 2: Residential housing supply in Germany 2004

(in m units)	2004
Non-profit owners	5.560
Municipalities and public housing associations	3.135
Housing co-operatives	2.288
Churches	0.137
Institutional Investors	4.211
Private sector	2.598
Corporates	1.613
Private Investors	13.792
Landlords	10.387
Sublettings	3.405
Owner occupied	15.130
Multi family	2.881
Single or dual family	12.249
TOTAL residential housing supply	38.693

Source: German Federal Statistical Office Report 2004, JCF, Main*First* estimates

Institutional Trading: Vivacon will double its volume this year easily without massively growing its market share!

Table 3: German residential flats: higher trading volume ahead

(in m units)	2004	2005	2006E	2007E	2008E
Number of residential flats	38.7	38.7	38.7	38.7	38.7
O/w under rental contracts	23.6	22.8	22.2	21.7	21.3
O/w owner occupied	15.1	15.9	16.4	17.0	17.4
Home ownership ratio *	39%	41%	43%	44%	45%
Traded flats	0.4	0.4	0.7	0.6	0.6
%age of total (under rental contracts)	1.7%	1.8%	3.1%	2.8%	2.8%
Vivacon market share	0.4%	2.1%	2.5%	3.0%	3.3%
Traded flats by Vivacon (abs)	1,500	8,470	17,500	18,000	19,800

Source: German Federal Statistical Office Report 2004, JCF, Main*First* estimates; * excluding new construction

This large chunk of available assets opens massive opportunities for Vivacon to participate in rising deal activity and higher demand for local expertise in packaging real estate assets. To reach its target of 15,000 traded flats this year, Vivacon does not need to boost its market share massively (see table 3). We think that Vivacon should be able to slightly grow its share of the business and to record at least 17,500 traded flats.

Institutional Trading: SPV usage increases deal efficiency…

Vivacon utilises special purpose vehicles (SPVs) to buy and sell the increasing number of properties. There is just a slight difference in accounting versus "asset" deals: the SPV or "share"-deal-accounting only recognises the gain (EBIT) of the SPV transaction as revenue whereas "asset" deals lead to the full recognition of the sale volume as revenues. Deal costs for "asset" deals are shown in the "cost of completion" line. This explains the lower revenue in 2005 vs. 2004, simply because Vivacon used more SPVs to handle the volumes. The more SPVs are used for these transactions, the lower the revenues generated from this. The underlying EBIT remains unchanged.

Table 4: Institutional Trading: Accounting difference share deal vs. asset deal

€ m	asset deal:	accounted for as...	share deal:	accounted for as...
No. of flats traded	1,500		1,500	
Average price per flat (€ '000s)	30.20		30.20	
Acquisition price	45.30	cost of completion	45.30	
Deal related cost 6% of acq. Price	2.72	cost of sales (part of)	2.72	
Deal margin 10%	5.04		5.04	
Selling price	53.06	sales	53.06	
Per flat	35.37		35.37	
EBIT	5.04		5.04	EBIT=sales
EBIT margin	10.5%		10.5%	

Source: Company accounts, Main*First* estimates

We think that Vivacon should sizeably grow its number of traded flats via share deals which will lead to a significant jump in related gains from these transactions. Given the booming international interest for German real estate, the pricing power should not be underestimated.

Table 5: Institutional Trading: Trading volumes flying!

	2005E*	2006E	2007E	2008E
Asset deals (no. flats traded)	1,271	1,500	1,500	1,500
Selling price (€ m)	44.76	53.06	53.83	54.71
Average per flat (€ thousands)	35.21	35.37	35.89	36.47
EBIT (€ m)	4.07	5.04	5.33	5.42
EBIT margin	10.0%	10.5%	11.0%	11.0%
SPV deals (no. flats traded)	6,900	15,600	16,000	17,750
Selling price (€ m)	241.36	545.69	559.68	620.90
Average per flat (€ thousands)	34.98	34.98	34.98	34.98
EBIT (€ m)	21.94	49.61	50.88	56.45
EBIT margin	10.0%	10.0%	10.0%	10.0%
Total no. of flats traded Institutional	8,171	17,100	17,500	19,250
Private	299	400	500	550
TOTAL VIVACON	8,470	17,500	18,000	19,800

Source: Company accounts, Main*First* estimates, *split not reported

Table 6: Institutional Trading: Trading volumes boosting profits!

€ m	2005E*	2006E	2007E	2008E
Revenues from asset deals	44.8	53.1	53.8	54.7
Revenues from share deals	8.6	34.7	50.9	56.4
Revenues from trading / IAS40	32.6	14.9	15.3	16.9
Total revenues	86.0	102.7	120.0	128.1
Operating Expenses	-157.9	-49.3	-50.3	-51.7
Cost of Sales and Admin	-5.5	-5.4	-5.5	-5.9
Inventory changes	113.8	0.0	0.0	0.0
EBIT	36.4	48.0	64.1	70.5
Cost of debt	-2.3	-3.3	-3.5	-3.9
Pre-Tax Profit	34.7	44.7	60.7	66.5
Tax	-11.8	-14.7	-20.0	-22.0
Net profit	22.9	29.9	40.6	44.6

Source: Company accounts, Main*First* estimates, *split not reported

Asset Management –low risk and high return

AM: low equity requirements yet very high returns…

Asset Management is an all new division which will be up and running this year. Vivacon secured a deal with a Canadian senior equity partner last year, who will provide the financing and the equity (95%) for a new investment fund managed by Vivacon. Vivacon will act as a co-investor with 5% equity ratio, advising the Canadian partner on the targeted assets under management. The first goal is to acquire €2bn worth of German residential real estate over the next two to three years. During the acquisition phase, the partner has the right of first refusal on every deal Vivacon does. Once the initial amount has been secured, Vivacon is free to trade with other investors. We think that Vivacon will be successful in cherry-picking attractive real estate assets for its partner until end 2007 and should therefore be able to actively seek further investments in German real estate for new upcoming partners. The company already admitted that it wants to seek faster and more aggressive partners to further leverage the existing and highly profitable business model. Such a transaction would boost the trading and investment capabilities of Vivacon massively.

As you can see from the following table, Vivacon's equity risk is minimal whereas the profit opportunities are large and should contribute sizeably to future earnings.

Table 7: Asset Management – a sample portfolio

€ m	2006E	2007E	2008E	2009E	2010E	5 yr. Total
AuM	800					
Disposal					1000	
Initial Fee	8					8
Mgmt. Fee	8	8	8	8	8	40
Var. Exit Fee					5	5
Var. Profit Participation					24	24
Total VIA proceeds	16	8	8	8	37	77

Source: Company accounts, Main*First* estimates

On a deal like the one shown above, Vivacon just has to put in just €10m of equity (LTV 75% = €200 equity need on €800m AuM = Vivacon equity proportion 5% = €10m). The investment will be easily paid back in Year 1 already as proceeds reach €16m for the full year versus €10m equity investment. The remaining income directly hits the bottom line after a small cost charge and a 25% tax rate. Please note the big swing in income in 2010E as the first investments mature after 5 years and Vivacon receives 20% of the excess profits as a participation gain should the IRR exceed 10%.

Table 8: Asset Management – P&L shows big profits ahead

€ m	2006E	2007E	2008E	2009E	2010E
Assets under Mgmt. (year-end)	1100	2000	2500	3000	3300
Commission income	16.5	29.0	30.0	35.0	81.0
Staff and admin costs	-1.7	-2.9	-3.0	-3.5	-4.0
Financing costs (equity)	-0.7	-1.3	-1.6	-1.9	-2.1
Pre-Tax profit	14.2	24.9	25.4	29.6	74.9
Tax 25%	-3.5	-6.2	-6.4	-7.4	-18.7
Net profit	10.6	18.6	19.1	22.2	56.2

Source: Company accounts, Main*First* estimates

Leasehold Rights – smart securitisation

Ground leases: Adding value and liquidity to Vivacon's business model

As Vivacon's trading volumes continue to grow over the next years, the Leasehold Rights segment will start to pay off soon given its consequent policy of separating the land from the building. The company will emerge as one of the biggest land owners in Germany. The buyers of Vivacon's objects have to pay a monthly instalment for the right to use the land but, on the other hand, receive a discount on their buying price (c. 20%).

Typically, leasehold agreements are recorded in the land charge register for 99 years. The big advantage is that the ground leases receive superior status compared to any other debt like mortgages. Therefore, these rights have a perpetuity character and can be used to issue asset backed securities. Vivacon did the first leasehold securitisation early this year and was able record a very nice capital gain on the sale. We expect these activities to continue over the next years which will free up capital, thus create liquidity to re-invest into many more projects.

As per 31.12.2005, Vivacon holds 7,000 leasehold rights with an annual income stream of €3.9m. With every sale of property, no matter whether to private individuals or block sales to institutional investors, Vivacon receives new rights with new income streams attached. We estimate that a third of all transactions are carried out under leasehold terms (100% of all single tenant privatisations and 30% of all institutional trades).

Table 9: Leasehold Rights – a growing income stream

	2004	2005	2006E	2007E	2008E
Total traded flats (abs.)	1,500	8,470	17,500	18,000	19,800
O/w leasehold	767	2,750	5,530	5,750	6,325
% leasehold	51%	32%	32%	32%	32%
No. Of rights reported	n/a	4,250	7,000	12,530	18,280
Rights income stream (€ m)	0.80	2.00	3.92	5.67	7.60

Source: Company accounts, Main*First* estimates

Using the average acquisition multiple of roughly 11X the annual ground lease income stream and given the latest securitisation data (Vivacon sold at 22.7X), we would value these ground leases at a multiple of 23X. The impact of this is shown in the P&L in the other operating income line and is classified as IAS40 revaluations (immediate write-up of the rights value from 11X to 23X). We would also note the very positive impact on our SOTP valuation.

Valuation

Summary & Rating

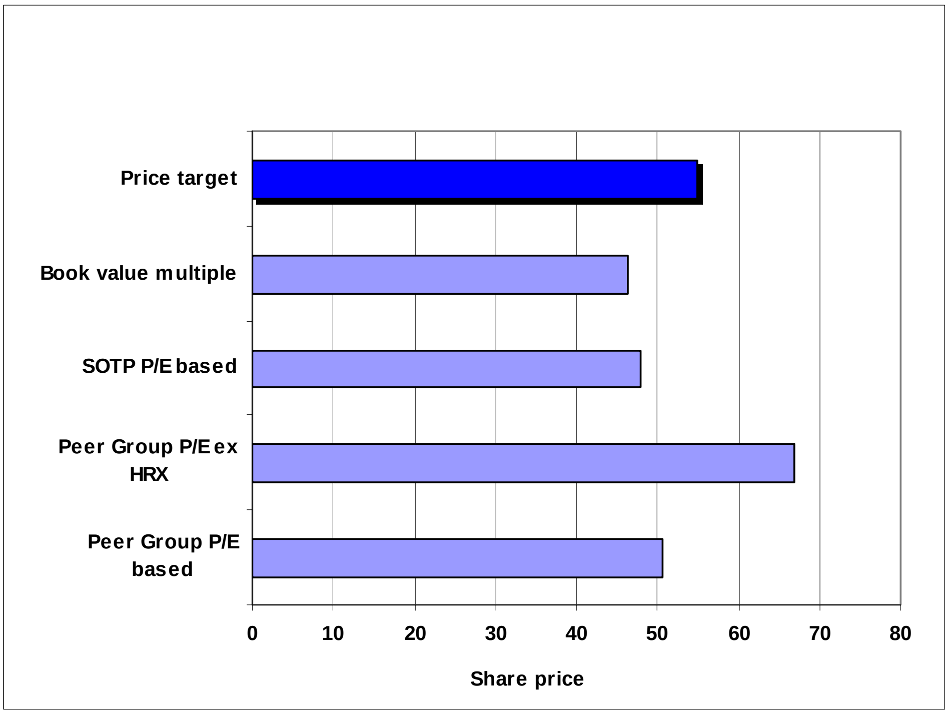
- We have conducted four different valuation approaches, all of which point to the same conclusion: this stock appears undervalued! Both Peer Group and Sum-Of-The-Parts methodologies yield price targets of €59 (average of €67 and €51 – see tables 10 and 11) and €48 respectively.

- We have decided not to use a DCF valuation yet the reasons being (1) no history on the development of the relevant balance sheet items, (2) working capital changes highly unpredictable (one of the main influencing factors for our DCF), (3) high sensitivity to the WACC used.

- We think we are more conservative when using a book value model based on estimated RoE over the next three years with a 9% discount rate.

- Our price target is calculated as an average of all four different valuation methods arriving at €55. BUY.

Chart 1: Vivacon AG - Price targets (EUR per share)



Source: Main*First* estimates

Peer Group Analysis

- The peer group analysis underpins our bullish stance on the stock. Given that Vivacon's EPS CAGR is some 10 percentage points higher compared to the average of its respective sector. We think its big discount is unjustified and it should even trade at a premium to the peer group, given its unique and unparalleled business model and market positioning.

- One might also argue that we should leave out Hypo Real Estate as it does not perfectly fit into the peer group. For conservative reasons, we decided to use the average of both peer group valuations as our "peer group" price target, which amounts to €58.7. The underlying result is shown in the tables 10 and 11 below.

Table 10: Peer Group Comparison

Annual Data	RIC	Price €		EPS			P/E		EPS CAGR %
(calendar year)		22-Apr-06	2005	2006E	2007E	2005	2006E	2007E	05e-07e
Hamborner AG	HAB GR	33.00	1.27	1.03	1.00	23.62	32.04	33.00	-11%
Patrizia	P1Z GY	22.73	0.41	0.80	1.60	44.93	28.38	14.22	97%
Hypo Real Estate	HRX GY	56.30	2.38	3.93	5.29	18.47	14.34	10.64	49%
IVG Immobilien	IVG GY	23.46	0.95	1.08	1.21	18.68	21.77	19.44	13%
Colonia Real Estate	KBU GR	170.00	2.36	7.16	10.00	25.85	23.73	17.00	106%
Weighted average (abs)						21.34	18.12	13.74	47%
Vivacon AG	VIA GY	40.00	1.39	2.41	3.52	20.55	16.60	11.38	59%
Current prem (disc) (%)						-3.7%	-8.4%	-17.2%	
Fair premium (disc) (%)						10%	10%	10%	
Fair price (abs)						32.65	48.03	53.15	
Weight (abs)							0.50	0.50	
implied PT	50.59								

Source: Company accounts, Consensus data, Main*First* estimates

Table 11: Peer Group Comparison (excluding HypoRealEstate)

Annual Data	RIC	Price €		EPS			P/E		EPS CAGR %
(calendar year)		22-Apr-06	2005	2006E	2007E	2005	2006E	2007E	05e-07e
Hamborner AG	HAB GR	33.00	1.27	1.03	1.00	23.62	32.04	33.00	-11%
Patrizia	P1Z GY	22.73	0.41	0.80	1.60	44.93	28.38	14.22	97%
IVG Immobilien	IVG GY	23.46	0.95	1.08	1.21	18.47	21.77	19.44	49%
Colonia Real Estate	KBU GR	170.00	2.36	7.16	10.00	18.68	23.73	17.00	13%
Weighted average (abs)						21.08	23.07	18.66	44%
Vivacon AG	VIA GY	40.00	1.39	2.41	3.52	20.55	16.60	11.38	59%
Current prem (disc) (%)						-2.5%	-28.1%	-39.0%	
Fair premium (disc) (%)						0%	10%	10%	
Fair price (abs)						29.33	61.17	72.17	
Weight (abs)							0.50	0.50	
implied PT	66.67								

Source: Company accounts, Consensus data, Main*First* estimates

Book value multiple (Gordon Growth model)

- We favour to use this model vs. a standard DCF for the reasons mentioned above.
- Using a 3% long-term growth rate and a highly conservative beta of 1.1 for the stock, our Gordon Growth price target arrives at €46.4.

Table 12: Gordon Growth model

Cost of capital calculation	Group	
Risk free rate	4.00%	normalised Main*First* assumption
Equity risk premium	5.00%	expected market return 8%
Beta	1.10	12M Beta vs. STOXX + 2 notches for A-
Hurdle rate (=r)	9.5%	
Book value, one year ahead €	11.8	
Long term trend ROE on NAV	28.6%	
Cost of capital	9.5%	
Long-term growth rate	3.0%	
Fair book multiple	3.94	
Fair value, end 2006E €	46.4	

Source: Company accounts, Main*First* estimates

Financials

Revenue and Earnings Model

Table 13: Revenue and Earnings Model – Leasehold Privatisation: revenue assumptions

€ m	2004	2005	2006E	2007E	2008E
Estimated project pipeline	59.7	84.4	119.2	143.0	159.2
Notarised Volume (75%)	44.8	63.3	89.4	107.2	119.4
20% into sales current year	9.0	12.7	17.9	21.4	23.9
Prev. Year order backlog	26.9	33.2	54.0	71.5	85.8
Total reveneus	48.4	31.2	71.9	92.9	109.6

Source: Company accounts, Main*First* estimates

Table 14: Revenue and Earnings Model – Leasehold Privatisation: P&L

INCOME STATEMENT (€ MN)	2004	2005	2006E	2007E	2008E
Revenues	48.4	29.9	71.9	92.9	109.6
of which: listed buildings and Yoo	48.4	29.9	71.9	92.9	109.6
of which: commission					
of which: trading gains					
of which: other					
Operating Expenses	(44.4)	(26.8)	(60.6)	(77.8)	(91.3)
of which: personnel	(01.5)	(02.7)	(02.9)	(03.2)	(03.4)
of which: cost of completion	(42.7)	(23.9)	(57.5)	(74.4)	(87.7)
Depreciation	(00.2)	(00.2)	(00.2)	(00.2)	(00.2)
GOP	4.1	3.1	11.3	15.2	18.4
Cost of Sales and Admin	(02.6)	(01.8)	(04.3)	(05.6)	(06.6)
other non-operating					
Cost of debt	(01.0)	(01.4)	(01.8)	(02.3)	(02.5)
changes in inventory					
Pre-tax profit	0.4	(00.0)	5.1	7.3	9.3
Tax	(00.1)	0.0	(01.8)	(02.6)	(03.3)
Minorities					
Net Profit	0.4	(00.0)	3.3	4.7	5.9

Source: Company accounts, Main*First* estimates

Table 15: Revenue and Earnings Model – Institutional Trading: P&L

INCOME STATEMENT (€ MN)	2004	2005	2006E	2007E	2008E
Revenues	60.6	86.6	102.7	120.0	128.1
of which: listed buildings and Yoo	51.8	53.4	87.8	104.7	111.2
of which: commission					
of which: trading gains	8.4	32.6	14.9	15.3	16.9
of which: other	0.4	0.6			
Operating Expenses	(40.9)	(154.0)	(49.3)	(50.3)	(51.7)
of which: personnel	(01.5)	(03.2)	(04.0)	(04.6)	(05.2)
of which: cost of completion	(39.4)	(150.8)	(45.3)	(45.8)	(46.5)
Depreciation					
GOP	19.7	(67.4)	53.4	69.7	76.3
Cost of Sales and Admin	(02.4)	(05.5)	(05.4)	(05.5)	(05.9)
other non-operating	(00.5)	(03.9)	0.0	0.0	0.0
Cost of debt	(02.0)	(02.3)	(03.3)	(03.5)	(03.9)
changes in inventory	(05.1)	113.8	0.0	0.0	0.0
Pre-tax profit	9.7	34.7	44.7	60.7	66.5
Tax	(03.3)	(11.8)	(14.7)	(20.0)	(22.0)
Minorities					
Net Profit	6.4	22.9	29.9	40.6	44.6

Source: Company accounts, Main*First* estimates

Table 16: Revenue and Earnings Model – Institutional Trading –underlying volume estimates

€ m	2004E	2005E	2006E	2007E	2008E
Asset deals (no. Flats traded)	1303	1271	1500	1500	1500
Average price per flat	30.200	30.200	30.200	30.500	31.000
Acquisition price	39.35	38.38	45.30	45.75	46.50
Deal related cost 6% of acq. Price	2.36	2.30	2.72	2.75	2.79
Deal margin 10%	4.17	4.07	5.04	5.33	5.42
Selling price (=sales)	45.88	44.76	53.06	53.83	54.71
Per flat	35.213	35.213	35.373	35.886	36.475
EBIT	4.17	4.07	5.04	5.33	5.42
EBIT margin	10.0%	10.0%	10.5%	11.0%	11.0%
SPV deals (no. Flats traded)	0	6900	15600	16000	17750
Average price per flat		30.000	30.000	30.000	30.000
Acquisition price	0.00	207.00	468.00	480.00	532.50
Deal related cost 6% of acq. Price	0.00	12.42	28.08	28.80	31.95
Deal margin 10%	0.00	21.94	49.61	50.88	56.45
Selling price	0.00	241.36	545.69	559.68	620.90
Per flat		34.980	34.980	34.980	34.980
EBIT (=Sales)	0.00	21.94	49.61	50.88	56.45
EBIT margin		10.0%	10.0%	10.0%	10.0%

Source: Company accounts, Main*First* estimates

Table 17: Revenue and Earnings Model – Asset Management

€ m	2006E	2007E	2008E	2009E	2010E
Assets under Mgmt. (year-end)	1100	2000	2500	3000	3300
Commission income	16.5	29.0	30.0	35.0	81.0
Staff and admin costs	-1.7	-2.9	-3.0	-3.5	-4.0
Financing costs (equity)	-0.7	-1.3	-1.6	-1.9	-2.1
Pre-Tax profit	14.2	24.9	25.4	29.6	74.9
Tax 25%	-3.5	-6.2	-6.4	-7.4	-18.7
Net profit	10.6	18.6	19.1	22.2	56.2

Source: Company accounts, Main*First* estimates

Table 18: Revenue and Earnings Model – Leasehold Rights

€ m	2004	2005	2006E	2007E	2008E
Total traded flats (abs.)	1,500	8,470	17,500	18,000	19,800
O/w leasehold	767	2,750	5,530	5,750	6,325
% leasehold	51%	32%	32%	32%	32%
No. Of rights reported	n/a	4,250	7,000	12,530	18,280
Rights income stream (€ m)	0.80	2.00	3.92	5.67	7.60

Source: Company accounts, Main*First* estimates

Profit and Loss Account

- The strong leverage of Vivacon's business model will become visible over the next two years.
- The company will actively continue to pursue new business opportunities in asset management and residential trading.
- Longer-term, we could envisage Vivacon being a consolidator in a highly fragmented market to secure and further boost its strong market position.

Table 19: Consolidated Profit and Loss Account

INCOME STATEMENT (€ MN)	2004	2005	2006E	2007E	2008E
Revenues	110.6	118.5	195.0	247.6	275.3
of which: listed buildings and Yoo	101.9	85.3	163.6	203.3	228.4
of which: commission	0.0	0.0	16.5	29.0	30.0
of which: trading gains	8.4	32.6	14.9	15.3	16.9
of which: other	0.4	0.6	0.0	0.0	0.0
Operating Expenses	-85.3	-180.8	-111.5	-131.0	-146.0
of which: personnel	-3.0	-5.8	-8.5	-10.7	-11.6
of which: cost of completion	-82.2	-174.7	-102.8	-120.1	-134.2
Depreciation	-0.2	-0.2	-0.2	-0.2	-0.2
GOP	25.3	-62.3	83.4	116.6	129.3
Cost of Sales and Admin	-4.8	-7.3	-9.8	-11.1	-12.5
other non-operating	-0.5	-3.9	0.0	0.0	0.0
Cost of debt	-3.0	-3.6	-5.8	-7.0	-8.0
changes in inventory	-5.1	113.8	0.0	0.0	0.0
Pre-tax profit	11.9	36.7	67.9	98.5	108.9
Tax	-5.0	-12.5	-21.7	-31.1	-34.6
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	6.9	24.3	46.2	67.4	74.2

Source: Company accounts, Main*First* estimates

Doubling of trading volumes should almost double revenues!

Asset Management to kick in for the first time

Consolidated Balance Sheet

- The balance sheet remains the most volatile element in the whole Vivacon modelling process. As projects are booked as revenues depending on their status of completion and whether they are done as asset deal ("on balance sheet") or share deal (SPV) many lines of the balance sheet are therefore structurally volatile.

- We believe in r a more stable development in the future, as Vivacon will have reached a certain size and continue to actively steer the balance sheet in a more homogeneous direction.

Highly dependent on finalised projects and / or new acquisitions before year and = volatile

Also dependent on project status and related to available for sale number: the more projects to finalise, the higher the outstanding liabilities to 3rd party refurbishers.

Table 20: Consolidated Balance Sheet

BALANCE SHEET (€ '000s)	2004	2005	2006E	2007E	2008E
Assets					
Cash	61,366	69,611	76,572	88,058	101,267
Tangible assets	52,012	257,006	331,024	379,330	420,445
o/w WIP	92	1,557	1,588	2,382	3,573
o/w available-for-sale property assets	10,189	122,518	122,518	122,518	122,518
o/w leasehold rights	210	393	704	1,049	1,484
o/w sale of buildings	28,690	74,066	118,506	148,132	171,833
o/w other adjustments - (mainly land)	12,831	58,472	87,708	105,250	121,037
Intangibles	59,190	93,970	140,647	189,554	217,857
o/w property	58,026	93,004	139,506	188,333	216,583
o/w other (immaterial) assets / goodwill	360	515	618	680	714
'o/w Financial investments	104	112	116	120	124
Other assets (rights and prepaid expenses)	700	339	407	421	436
Total Assets	172,568	420,587	548,242	656,942	739,569
Total ave assets	144,567	296,577	484,415	602,592	698,256
Total yielding	113,378	326,617	407,596	467,388	521,712
Av. yielding assets	93,065	219,998	367,106	437,492	494,550
Other non-yielding	59,190	93,970	140,647	189,554	217,857
Fixed Assets	58,386	93,519	140,124	189,013	217,297
Liabilities					
Interbank	78,905	126,128	138,741	145,678	152,962
Long-term debt	14,435	0	23,586	24,765	26,003
latent tax liabilities	9,322	19,331	22,231	24,454	25,676
Accrued interest and deferred income	3,271	5,265	5,265	5,265	4,739
Liabilities to 3rd parties	6,254	101,036	142,966	171,559	169,844
Other liabilities	6,616	27,650	27,650	28,756	30,194
Other provisions	2,693	3,517	3,517	3,517	3,517
Subordinates/Hybrid	0	0	0	0	0
Minorities	-40	-315	-315	-315	-315
Shareholder equity YE	50,172	136,653	182,887	250,329	324,571
Subscribed	13,266	19,185	19,185	19,185	19,185
Reserve	34,704	97,878	117,468	163,702	231,144
Profit reserve					
Other	940	1,322	1,715	2,934	2,378
retained income	2,202	19,590	46,234	67,442	74,242
Total liabilities	172,568	420,587	548,242	656,942	739,569
Av. Shareh. Equity	39,093	93,413	159,770	216,608	287,450
Group share avg. equity	32,095	66,253	126,591	188,189	252,029
Total int. bearing	144,412	263,788	346,614	423,391	505,600
Non-int bearing	28,156	156,799	201,629	233,551	233,969

Source: Company accounts, Main*First* estimates

SWOT Analysis

Strengths	• Unparalleled track record in trading German real estate • Highly specialised niche player with deep roots to local authorities • Leasehold conversion favours both buyer and Vivacon itself • Strong and successful sales force
Weaknesses	• High leverage • Intransparent divisional reporting • Volatile structured balance sheet (trading company)
Opportunities	• Strong first mover advantage to gain market share • Attract more institutional buyers for its Asset Management division • Cheap refinancing due to leasehold securitisation • Consolidation / Acquisition of a competitor • Longer-term might itself become a target
Threats	• Rising competition in a big market • Fast rise in interest rates • Sudden German economic slowdown • Later write-downs on assets under IAS40 (due to today's immediate write-up of ground leases and value on completion)

Disclosure Appendix

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Recommendation	Definition of Recommendation Structure
Buy	>10% absolute increase in share price
Neutral	up to 10% absolute decrease/increase in share price
Sell	>10% decrease in share price

Source: Main*First* Bank AG

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Sell	8	7	0	0

Source: Main*First* Bank AG, quarterly update also available on www.mainfirst.com/disclosures

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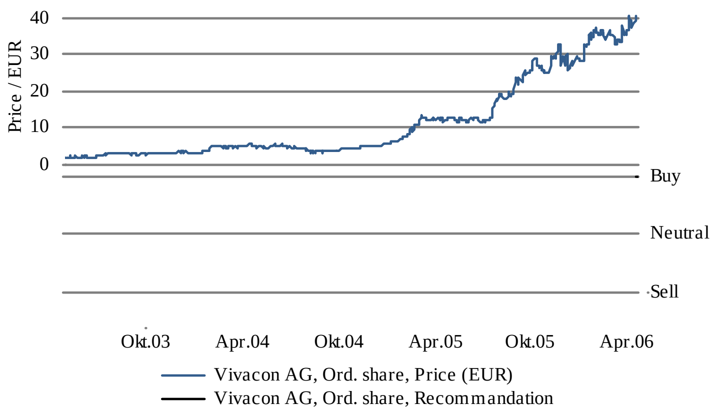

Source: Main*First* estimates, Bloomberg

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Companies Mentioned in this Report

Company name € m	RIC	Price € 22-Apr-06	M.cap. € m	Rec.
Hamborner AG	HAB GR	33.00	250	(NR)
Patrizia	P1Z GY	22.73	1,077	(NR)
Hypo Real Estate	HRX GY	56.30	7,520	(B)
IVG Immobilien	IVG GY	23.46	2,786	(NR)
Colonia Real Estate	KBU GR	170.00	665	(NR)

Source: Main*First* estimates, Bloomberg (*) B – Buy, S – Sell, N – Neutral, NR – Not rated

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P&L to December (€ m)	2005	2006E	2007E	2008E	CAGR
Total income	118.5	195.0	247.6	275.3	32.5%
Revenues from property sales	85.3	163.6	203.3	228.4	38.9%
commission (AM)	-	16.5	29.0	30.0	n/m
trading gains and IFRS 40	32.6	14.9	15.3	16.9	(19.6%)
other (on B/S gains)	0.6				
Other operating income					
Total costs	(180.8)	(111.5)	(131.0)	(146.0)	(6.9%)
Personnel costs	(5.8)	(8.5)	(10.7)	(11.6)	25.9%
General costs (of completion)	(174.7)	(102.8)	(120.1)	(134.2)	(8.4%)
Depreciation (mandatory)	(0.2)	(0.2)	(0.2)	(0.2)	0.0%
Other operating costs					
Operating profit pre risk provision	(62.3)	83.4	116.6	129.3	n/m
Cost of Sales and admin	(7.3)	(9.8)	(11.1)	(12.5)	19.8%
Operating profit post cost of sales	(69.5)	73.7	105.5	116.8	n/m
Cost of debt	(3.6)	(5.8)	(7.0)	(8.0)	29.9%
Other non-operating items	(3.9)				
Net extraordinary items	113.8				
Pre-tax profit	36.7	67.9	98.5	108.9	43.6%
Tax	(12.5)	(21.7)	(31.1)	(34.6)	40.6%
Minorities					
Net attributable profit	24.3	46.2	67.4	74.2	45.2%

P&L adjusted (€ m)	2005	2006E	2007E	2008E	CAGR
Goodwill amortisation					
Other (e.g. restruct. & acc changes)	4	6	7	8	29.9%
Pre-tax profit (adj.)	40	74	105	117	42.5%
Tax rate, %	33.9	31.9	31.6	31.8	(2.1%)
Minorities rate, %					
Net attributable profit (adj.)	27	49	70	77	42.5%

Balance sheet (€ m)	2005	2006E	2007E	2008E	CAGR
Cash and interbank	69,611	76,572	88,058	101,267	13.3%
Gross customer loans					
Risk provision					
Trading portfolio					
Investment portofolio	257,006	331,024	379,330	420,445	17.8%
Inv held for third parties					
Intangibles	93,970	140,647	189,554	217,857	32.4%
t/o Goodwill	0	0	0	0	n/m
Interbank liabilities	126,128	138,741	145,678	152,962	6.6%
Total customer deposits					
Bonds & other fixed income securities					
Provisions					
Liabilties on behalf of third parties	101,036	142,966	171,559	169,844	18.9%
Trading liabilities					
Other liablities (LT debt, tax and deferred)	55,763	82,249	86,757	90,129	17.4%
Hybrid and other quasi capital					
Accruals, Other liabilities	1,322	1,715	2,934	2,378	21.6%
Minorities	-315	-315	-315	-315	0.0%
Shareholder equity	136,653	182,887	250,329	324,571	33.4%
Balance sheet total	420,587	548,242	656,942	739,569	20.7%

Traded flats and leaseholds	2005	2006E	2007E	2008E	CAGR
No. Of traded flats	8,470	17,500	18,000	19,800	32.7%
O/w Privitisation	299	400	500	550	22.5%
O/w Institutional	8,171	17,100	17,500	19,250	33.1%
Leasehold rights	7,000	12,530	18,280	24,605	52.0%
Total sqm owned	200,000	525,000	849,533	1,206,519	82.0%

Ratios	2005	2006E	2007E	2008E	CAGR
ROE (rep.)	26.0	28.9	31.1	25.8	(0.2%)
ROE (adj.)	29.9	32.6	34.4	28.6	(1.4%)
Staff costs/income	(4.9)	(4.4)	(4.3)	(4.2)	n/m
Cost/Income (adj)	248.6	59.0	69.0	69.6	(34.6%)
Revenue / staff	2.5	3.5	3.5	3.7	14.1%
Costs / staff	(0.1)	(0.2)	(0.2)	(0.2)	n/m

Debt structure	2005	2006E	2007E	2008E	CAGR
Net debt (abs € m)	56.52	62.17	57.62	51.70	
Debt/Equity	41.4%	34.0%	23.0%	15.9%	
Interest (debt cost) cover	669%	801%	969%	933%	

Pre-tax profit (€ m)	2005	2006E	2007E	2008E	CAGR
Group total	36.7	67.9	98.5	108.9	43.6%
Leasehold privatisation	0.1	5.1	7.3	9.3	n/m
Asset Management	-	14.2	24.9	25.4	n/m
Institutional Trading and IAS 40	34.7	44.7	60.7	66.5	24.2%
Leasehold Rights	2.0	3.9	5.7	7.6	57.2%

Ratings (5: ++, 1: --)		Price (€)	40.0
Profitability	4.0	Alert	35.0
Growth	5.0	Price Target	55.0
Visibility	2.0	SOTP	48.0
Cyclicality	3.0	Gordon Growth	46.4
Focus	4.0	Peer Group	50.6
Bal. Sheet Quality	3.0	Peer Group (ex HRX)	66.7
Average	3.5		

Per share data (€)	2005	2006E	2007E	2008E
EPS (rep.)	1.39	2.41	3.52	3.87
EPS (adj.)	1.60	2.71	3.88	4.28
DPS	0.00	0.00	0.00	0.97
BVPS	6.2	8.3	11.8	16.4
NAVPS (adj.)	6.2	8.3	11.8	16.4
No. of shares (year-end)	19.19	19.19	19.19	19.19
No. of shares (diluted)	19.19	19.19	19.19	19.19

Valuation	2005	2006E	2007E	2008E
P/E, rep.	12.3	16.6	11.4	10.3
P/E, adj.	10.7	14.8	10.3	9.3
P/B, rep.	2.7	4.8	3.4	2.4
P/B, adj.	2.7	4.8	3.4	2.4
P/NAVPS	2.7	4.8	3.4	2.4
Dividend yield	0.0%	0.0%	0.0%	2.4%
Payout ratio	0%	0%	0%	25%

Peer group comparison (P/E)				
Company	Weight	2006E	2007E	2008E
Hamborner AG	0.02	23.6	32.0	33.0
Patrizia	0.09	44.9	28.4	14.2
Hypo Real Estate	0.61	18.5	14.3	10.6
IVG Immobilien	0.23	18.7	21.8	19.4
Colonia Real Estate	0.05	25.8	23.7	17.0
Vivacon	26.61	20.6	16.6	11.4
Weighted average		21.3	18.1	13.7
Current prem (disc)		(4%)	(8%)	(17%)
Fair premium (disc)		0%	0%	0%
Fair price		32.7	48.0	53.1
Weight		0.00	0.50	0.50
Price target (implied)		48.0		

Interim data (EUR)		2005	2006E	2007E
Group revenue (m)	Q1	4.2	13.9	24.9
	Q2	8.5	32.0	36.5
	Q3	10.8	31.6	39.8
	Q4	95.0	117.5	146.5
EPS, adj.	Q1	0.50	0.37	0.59
(on avg. number of	Q2	0.02	0.55	0.58
shares)	Q3	0.07	0.27	0.45
	Q4	1.01	1.52	2.26

Chart 1: ROE (line, lhs) versus Div. yield (bar, rhs)

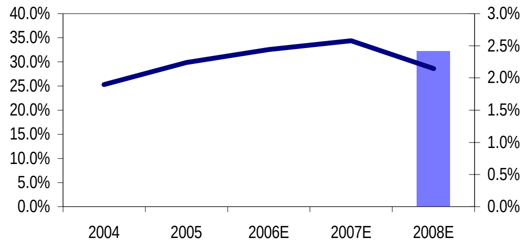

Chart 2: Top-Five Major Shareholders