

# PSP Swiss Property

Real Estate

2007-11-22

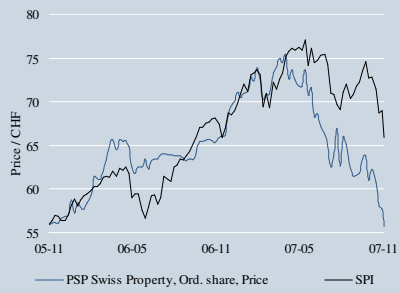
Applied disclosures can be found in the appendix

**Buy**

Fair Value CHF75.00

Price CHF55.70 (Closing price as of 2007-11-21)

## Price and rel. Performance



## GAINING FURTHER MOMENTUM

### ASSESSMENT

Solid M9 figures without any big surprises. Rental income of CHF184m (SOPe: CHF185m), revaluation result of CHF110m (SOPe: CHF105m), income from property sale of CHF2m (SOPe: CHF3m), and net yield of 4.3% (SOPe: 4.3%) were pretty much in line with our forecasts. The reason that net income was almost 11% higher than we expected was a higher revaluation gain in Q3 (delta of CHF5m), lower real estate renovation and maintenance expenses (delta of CHF2m), a better financial result (delta of CHF2m) and lower tax expenses (delta of CHF1m). The vacancy rate came down from 14.7% as of June 30, 2007 to 13.6% (SOPe: 13.5%). PSP is now aiming for a vacancy rate of below 12% as of December 30, 2007 and not at 12%.

### Market Data

Reuters	PSPN.S
Bloomberg	PSPN SW
Market cap CHFbn	2,4
Free float %	100,0

### VALUATION

PSP is currently trading at a discount of 15% to its NAV before deferred taxes, whereas the Swiss peer group is trading exactly in line with their NAV's. PSP's payout yield 07e stands at 4%.

### Key Data

Yr.end 12/31	2006	2007e	2008e
Revenues m	411,04	366,00	275,00
Net profit m	124,39	106,00	109,00
Adj. EPS	4,98	4,46	2,56
PER	12,7	12,5	21,8
EV/EBIT	14,3	15,5	23,3
EBIT mgn. %			
EPS CAGR: 05-09 %			-17,7

### CONCLUSION

PSP is fully on track. Although the US sub-prime crisis created a lot of negative sentiment not only for financial institutions but also for real estate stocks around the globe, we do not see direct risks for PSP's business case from a fundamental point of view. The demand for office space is still intact and rental rates continue their upward trend at prime locations.

Despite the fact that highly leveraged and opportunistic buyers from abroad have left the direct Swiss real estate market, we assess the risk for a negative revaluation of PSP's portfolio rather limited. PSP's lower vacancies should compensate for a possible negative valuation effect of higher capitalization rates.

Since PSP's market value has fallen below its book value, the company has become an interesting counterparty for portfolio deals and foreign investors or competitors could get an easy but interesting foothold in the Swiss real estate market at a very attractive price.

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**PSP Swiss Property - P&L**

<b>CHFm (Yr. end: 12/31)</b>	<b>2005</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>
Rental income	226,6	239,5	248,0	270,0	290,0
Earnings from sale of real estate investments	-0,6	6,9	5,0	3,0	3,0
Earnings from real estate mgt. Services	26,8	20,3	0,0	0,0	0,0
Revaluation of investment properties	31,9	126,1	105,0	0,0	0,0
Other income	0,0	0,0	6,0	0,0	0,0
<b>Total income</b>	<b>289,2</b>	<b>411,0</b>	<b>366,0</b>	<b>275,0</b>	<b>295,0</b>
Real estate operating expenses	-13,7	-16,0	-18,0	-16,0	-17,0
Real estate maintenance and renovation exp.	-12,8	-14,5	-22,0	-20,0	-20,0
Personnel expenses	-24,7	-27,0	-17,0	-18,0	-18,0
General and administrative expenses	-14,5	-13,1	-12,0	-11,0	-11,0
Other operating expenses	-5,1	-8,3	-2,0	-2,0	-2,0
<b>Total operating expenses</b>	<b>-70,8</b>	<b>-78,9</b>	<b>-71,0</b>	<b>-67,0</b>	<b>-68,0</b>
Non recurring items	0,5	0,0	1,0	0,0	0,0
<b>EBITDA</b>	<b>218,4</b>	<b>332,1</b>	<b>295,0</b>	<b>208,0</b>	<b>227,0</b>
<b>EBITDA (excl. revaluation)</b>	<b>186,4</b>	<b>206,0</b>	<b>190,0</b>	<b>208,0</b>	<b>227,0</b>
thereof: Depreciation	-2,8	-2,0	-2,0	-2,0	-2,0
<b>EBIT</b>	<b>215,6</b>	<b>330,1</b>	<b>293,0</b>	<b>206,0</b>	<b>225,0</b>
Interest income	1,2	1,3	1,0	1,0	1,0
Interest expenses	-44,3	-51,6	-58,0	-67,0	-75,0
EBT	173,1	279,8	237,0	140,0	151,0
Taxes	-29,8	-54,5	-47,0	-31,0	-33,0
Adjusted net profit	143,3	225,3	190,0	109,0	118,0
Net profit	121,7	124,4	106,0	109,0	118,0
Net profit after minorities	143,3	225,3	190,0	109,0	118,0

**Key ratios and figures**

<b>CHFm (Yr. end: 12/31)</b>	<b>2005</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>
Number of total shares	45,2	45,3	42,6	42,6	42,6
EPS (reported)	3,17	4,98	4,46	2,56	2,77
adj. EPS	3,17	4,98	4,46	2,56	2,77
Dividend	2,10	2,20	2,20	2,40	2,50
Net asset value per share	53,28	56,25	57,15	57,06	57,08
<b>Growth rates %</b>					
Revenues change	7,3	42,1	-11,0	-24,9	7,3
EBITDA	19,2	52,1	-11,2	-29,5	9,1
EBIT	18,6	53,1	-11,2	-29,7	9,2
EBT change	-16,9	61,7	-15,3	-40,9	7,9
Net profit	-21,7	57,2	-15,7	-42,6	8,3
adj. EPS	-23,6	57,0	-10,4	-42,6	8,3
<b>Margins %</b>					
ROE incl. Revaluation effect	4,7	4,0	3,4	4,5	4,9
ROE excl. Revaluation effect	6,1	9,1	7,6	4,5	4,9
<b>Expense ratios %</b>					
Personnel Costs to Revenues	-10,9	-11,3	-6,9	-6,7	-6,2
<b>Other ratios</b>					
Interest cover	-4,9	-6,4	-5,1	-3,1	-3,0
Equity ratio %	51,1	52,1	47,9	45,7	43,6
Gearing %	94,5	90,6	106,8	116,6	126,7
Net financial debt / EBITDA	5,5	3,6	5,2	8,5	8,9
Net yield investment properties	6,3	3,8	5,2	6,1	6,5

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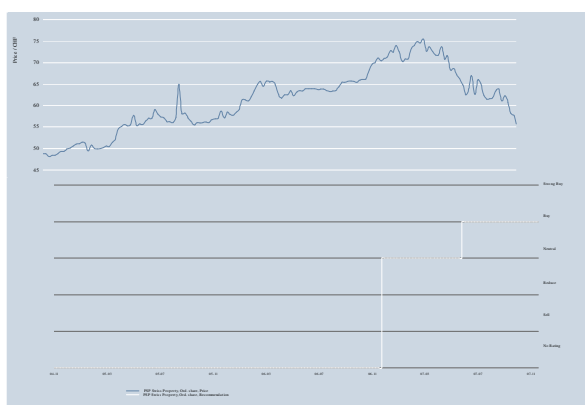
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Reduce	25	6,6	0	0,0
Sell	1	0,3	0	0,0
No rating	19	5,0	1	1,8

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