

# Update

## Equities - Germany

07.02.2012



## Madison Property AG

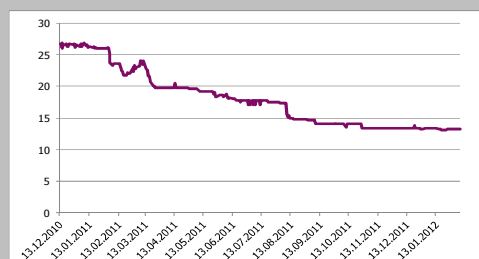
Rating:	<b>Buy</b>
Risk:	Medium
Current Price:	EUR 13.22
Price Target New:	EUR 17.2
Potential:	23%
Sector:	Real Estate

ISIN:	DE000A0V9KR3
Bloomberg Code:	MPD GR
Internet Page:	www.madisonproperty.de
Fiscal Year Ending:	December

### Trading Data

Price High/Low 52w:	EUR 30.2 - 13.5
Market Capitalisation:	EUR 48.6m
Shares Outstanding:	3.68m
Free Float:	13%

### Price Graph



### Financial Calendar

February 2012      Annual Meeting

**Date and Time of Prices**  
**07.02.2012 10:00 (CET)**

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Please take a note of the Disclaimer and other Information on Page 3

### Company reported half year 2011/12 results in line with expectations

Madison Property AG reported its half year 2011/12 results, which came in as expected. Recognized sales were a low EUR 203000; sales generated were mainly rental income from Madison's investment properties. At first glance, this sounds like a very low number. But in general, sales of Madison Property AG are going to be recognized after the delivery of the projects, which we expect to happen in the second half of fiscal year 2011/12. Consequently, the vast majority of sales will be generated later this fiscal year. First half year pre-sales figures have been a very strong EUR 60.7m. This makes us very confident that Madison Property AG will be able to achieve our sales target of EUR 96.91m for 2011/2012.

Net loss was EUR 2.6m, as expected. We stick as well to our net profit estimate of EUR 11.28m for 2011/12, which is equal to a net profit margin of 11.6%.

### Construction process as planned

All five complexes currently under construction should be delivered as planned at the end of April 2012, the latest. Green Bay West is almost finished, as are State Garden Phase 3, Fragrance Town Mountain, the Villa with Springs and the Lianjiang Industrial Park Phase 1.

For the coming years we expect that the company will increasingly focus on building commercial buildings. One of them will be the extension to the already under construction Lianjiang Park in Chongqing. We find this the right decision of the management, as the government measures have somehow made future construction in residential buildings more difficult.

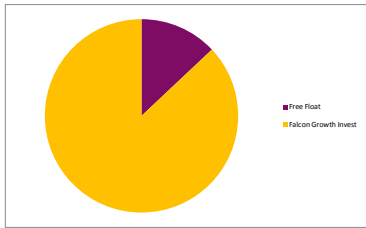
For fiscal year 2012/2013 we calculate with a sales growth of 10.8%, resulting in total sales of EUR 107.4m. Net margins should come slightly down. We expect 10.9%, which is equal to a net profit of EUR 11.68m.

### Our fair value is EUR 17.2 - Recommendation BUY

We stick to our fair value of EUR 17.2. To calculate the fair value we have combined a Discounted Cash-flow model with a peer group analysis. Our recommendation remains BUY.

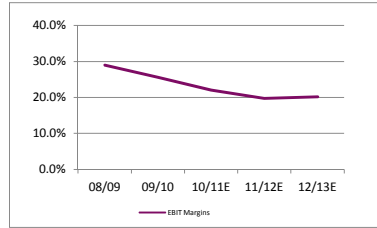
Major risks in the failure of your investment case lie in the likelihood of a possible project postponement, high capital needs, the intense competitive environment as well as increasingly restrictive policies by the government.

## Sales Distribution



Source: Madison Property AG, VEM Aktienbank AG

## EBIT Margins Trends



Source: Madison Property AG, VEM Aktienbank AG

## Company Profile

Madison Property AG is a German AG headquartered in Berlin. Headquarter of the Chinese affiliate is Qingdao in the Shandong Province on the East Coast of China. The Chinese company was founded in 1998 and has currently 149 employees, mainly in development, planning and marketing. Main focus is the development, construction and sale of real estate in the growth regions Chongqing and Shandong. The project portfolio centers around developments in the mid to high price range. As a step to diversification, the company plans to build commercial real estates as well as leisure complexes and hotels. The projects and the Madison Group itself have been awarded with several awards; among them are prizes for high environmental awareness.

## Financials

Fiscal Year Ending April 30

Profit & Loss		08/09	09/10	10/11	11/12E	12/13E	Cash Flow Statement		08/09	09/10	10/11	11/12E	12/13E
in m EUR													
Sales		57.17	63.50	72.36	96.91	107.40	Net Income				10.72	11.28	11.68
Percentage change in %			11%	14%	33.9%	10.8%	Amortization				0.00	1.08	0.72
Gross Profit		22.44	20.20	21.88	26.02	28.85	Changes in Working Capital				0.00	-124.88	-30.56
in % of Sales		39.3%	31.8%	30.2%	26.8%	26.9%	Cash flow from operative Business		2.80	-8.03	10.72	-112.52	-18.16
EBIT		16.56	16.28	15.97	19.12	21.68	Capex		-0.64	-0.20	-0.14	0.00	0.00
in % of Sales		29.0%	25.6%	22.1%	19.7%	20.2%	Financial Investments		-5.90	7.51	24.42	100.47	11.14
Net Profit		8.48	9.23	10.72	11.28	11.68	Free Cash Flow		-3.74	-0.73	35.00	-12.05	-7.02
in % of Sales		14.8%	14.5%	14.8%	11.6%	10.9%	Dividends		0.00	0.00	0.00	0.00	0.00
Minorities			0.159	0.946	0.8	0.8	Net Cash		-3.74	-0.73	35.00	-12.05	-7.02
shares outstanding (in Mio)				3.58	3.58	3.58	Cash beginning of the year		10.03	6.45	5.72	40.72	28.68
EPS (reported)				2.73	2.93	3.04	Cash end of the year		6.29	5.72	40.72	28.68	21.66

Balance Sheet		08/09	09/10	10/11	11/12E	12/13E	Key Figures		11/12E	12/13E
in m EUR										
Assets		23.72	25.43	15.78	13.94	13.81	P/E		4.5	4.3
Trade Receivables		50.09	38.91	74.94	37.47	18.74	P/B		0.8	0.6
Inventories		72.62	69.05	83.83	226.34	271.61				
Cash		6.19	5.62	21.42	9.37	2.35				
Equities		43.00	51.63	62.77	73.86	86.34				
Trade Payables		49.75	30.77	37.92	22.75	18.20				
Liabilities		15.47	21.90	39.69	140.16	151.30				
other Passives		47.26	39.29	63.35	58.12	58.44				

Madison Property AG, VEM Aktienbank AG

## SWOT Analyse

### Strengths

The company has already successfully realized several projects, demonstrating its operative strength.

The Madison Group has several projects in different stages of development, which should guarantee a positive cash flow in the future.

The management has a long-term expertise in the Chinese real estate market.

### Weaknesses

The business model is project based. Delays can lead to significant shifts of projects completions. This would have a negative effect on the sales as well as income development of the company.

The Madison Group is relatively small and just equipped with average capital. Other larger competitors could be more successful in regards to purchasing land property.

### Opportunities

The Chinese real estate market and the focus area of the Madison group in particular are characterized by above average growth in the long term.

The company could extend its projects to other growth areas. In the current focus area has sufficient land reserves making construction possible.

### Threats

Company success is highly dependent on the development of real estate prices. They are impacted by external factors like interest rate as well as the economic development.

The Chinese real estate market is very regulated and political changes could have a negative effect on the operative development of the Madison Property AG.

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## Summary of VEM's recommendations over the last 12 month concerning the securities of the company being subject of this analysis

Date of publication	Share Price at this date	Recommendation	New Fair Value (at date of publication)
16.11.2010	N.A.	Buy	EUR 34.42
20.12.2011	EUR 13.4	Buy	EUR 17.2

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Company	Disclosure
Madison Property AG	3 - 5 - 8 - 9 - 10 - 11 - 13
1. There is a major shareholding (a shareholding exceeding 5 percent of the share capital) between persons and/or enterprises mentioned above and the issuer whose financial instruments are, the subject of this financial analysis.	that is, or undertaking
2. The remuneration of the persons and/or enterprises mentioned above is dependent on investment banking transactions of the responsible enterprise or an associated with it.	undertaking
3. The persons and/or enterprises mentioned above regularly hold shares of the issuer that is, or whose financial instruments are, the subject of this financial analysis, in its trading portfolio.	analysis, in
4. The persons and/or enterprises mentioned above own a short position in shares of the issuer that is, or whose financial instruments are, the subject of this financial analysis, of at least 1 percent of the share capital.	financial
5. The persons and/or enterprises mentioned above manage the financial instruments of the issuer that is, or whose financial instruments are, the subject of this financial analysis, on a market by placing buy or sell orders (Market Making/Designated Sponsoring).	this financial
6. The persons and/or enterprises mentioned above act as Corporate Broker for the issuer that is, or whose financial instruments are, the subject of this financial analysis.	financial
7. The persons and/or enterprises mentioned above have, within the past 12 month, been part of a consortium for the issue of shares of the issuer that is, or whose financial instruments are, the subject of this financial analysis, in the way of a public offering.	whose
8. The persons and/or enterprises mentioned above have acted as investment bank or selling agent in connection with initial public offering of the issuer that is, or whose financial instruments are, the subject of this financial analysis, in the way of a public offering.	is, or whose
9. The persons and/or enterprises mentioned above have, within the past 12 month, been party to an agreement on provision of investment banking services with the issuer that is, or whose financial instruments are, the subject of this financial analysis, or have received services or a promise to perform under the terms of such an agreement during the same period.	with the
10. The persons and/or enterprises mentioned above expect or aim, within the next 3 month, for fees, allowances or payments of any other kind for investment banking services from the issuer that is, or whose financial instruments are, the subject of this financial analysis.	banking
11. The persons and/or enterprises mentioned above have entered into an agreement on the preparation of this financial agreement with the issuer that is, or whose financial instruments are, the subject of this financial analysis.	whose
12. Prior to its first publication, this financial analysis has been made available to the issuer that is, or whose financial instruments are, the subject of this financial analysis.	financial
13. The persons and/or members of the management board of the enterprises mentioned above are members of the management or supervisory board of the issuer that is, or whose financial instruments are, the subject of this financial analysis.	issuer that is,
14. The persons and/or enterprises mentioned above have any other significant economic interests relating to the issuer that is, or whose financial instruments are, the subject of this financial analysis.	are, the

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This financial analysis is based on public available information (Company presentations, Annual Reports, Quarterly Reports, Press Information, prospectus, ad-hoc announcements etc.). Moreover, management interviews for more detailed information about the current business development were held with the company.

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BUY: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is at least + 10 %.  
 HOLD: The expected return (composed of the projected change of the share price and the anticipated dividend yield) ranges from - 10 % and + 10 %.  
 SELL: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is worse than - 10 %.

For further important details concerning the valuation methods applied in the preparation of this analysis, the meaning of the specific investment recommendation (including the recommended investment period, the risks associated with the investment and the sensitivity of the valuation parameters) please see the Section "Valuation" in this analysis.

## Quarterly summary:

VEM is evaluating its ratings on a quarterly basis. The evaluation for the last quarter compares VEM's recommendations "Buy", "Hold", and "Sell" in total with VEM's recommendations "Buy", "Hold", and "Sell" for companies to which VEM has delivered significant investment banking services during the last 12 month. To view this evaluation, please visit [www.vem-aktienbank.de](http://www.vem-aktienbank.de).

## Additional important information:

Date of first publication of this analysis by VEM : February 7, 2012  
 Date and Time of relevant Share Price (see first page)

A schedule for an update of this Analysis is not appointed yet. VEM reserves the right to update any individual analysis without prior notice.