

Real Estate

Sagi sells ~25% of CWI to ADLER – ADLER takes a seat at CWI's table

Wednesday, 19 August 2015

Company	Reco.	Curr.	Price	TP
ADLER Real Estate AG	u.r.	EUR	14.68	u.r.
conwert Immobilien Invest SE	BUY	EUR	11.97	13.30

ADLER buys 24.79% stake in conwert

Recently ADLER Real Estate (ADL) announced that it bought a 24.79% stake in conwert (CWI) by purchasing 100% of MountainPeak Trading Limited (MP), whose sole holding is the CWI stake. The price of € 285m will be financed by i) issuing a € 175m mandatory convertible bond to MP's owner, Teddy Sagi, (conversion price € 16.50, coupon: 0.5% p.a., 3 years maturity) and ii) € 110m in loans and cash. This prices CWI's shares in the stake at ~ € 13.50 p/s and a discount of ~16% to our estimated 2015e EPRA NAVPS of € 16.16.

CWI owns a mixed portfolio with 25,000 residential units

CWI owns a mixed portfolio consisting of 75% residential vs 25% commercial real estate. Geographically, 75% of its portfolio assets are located in Germany, 22% in Austria and 3% in CEE. In total the CWI portfolio comprises some 30k units worth ~€ 2.8bn, including 25k units in Germany (asset value € 1.77bn) split as follows: ~5k Berlin, ~4.5k Leipzig, ~3k North Rhine-Westphalia (NRW), and some 580 units in Dresden. ADL owns ~9.5k units in NRW (as of Q1 2015) and ~4.5k units in Saxony (incl. Leipzig and Dresden). In case of a merger we would see some overlaps in NRW, Leipzig and Dresden.

Rationale for the purchase and possible future scenarios

CWI is the last remaining major German residential company (although it also holds some commercial and Vienna-based properties) trading at a significant discount to EPRA NAV (~25%). Therefore, the company has always been a theoretical target. However, CWI's shareholders rejected Deutsche Wohnen's (DWN's) takeover bid at € 11.50 p/s in February.

Now ADL is taking a seat at CWI's table by purchasing Mr Sagi's ~25% stake in the company. ADL is following a friendly approach and aims to align with CWI's existing shareholders in order to maximise CWI's value, which matches the aims of the existing shareholders. We have already seen friendly and optimistic statements in the press from existing shareholders welcoming ADL as a new shareholder. This is completely the opposite of what we saw and heard during DWN's take-over attempt.

By purchasing the ~25% stake, ADL opens the way to several options and 2 base scenarios.

- 1) **Scenario #1: keep the ~25% stake.** Here ADL could achieve NAV accretion (at equity accounting) through CWI's intended value generating restructuring process. ADL could also accelerate the restructuring process e.g. by supporting the disposal of CWI's commercial portfolio via ADL's network, or supporting the disposal of CWI's non-core residential assets through Accentro.
- 2) **Scenario #2: attempt a complete takeover.** Here ADL could achieve NAV accretion with the aforementioned measures and also through synergies based on portfolio overlaps, economies of scale, and SG&A cost-cutting potential. Furthermore, ADL's balance sheet quality would improve through the addition of CWI's relatively solid balance sheet. However, according to Austrian takeover rules, ADL must pay in cash if it bids for CWI. This applies to both voluntary and mandatory bids. Furthermore, ADL must ensure before the bid that it can finance such a bid in cash. This requirement can make the pricing of a potential bid quite difficult because the bid must be high enough to convince CWI shareholders to take the cash, but not so high as to prevent future value appreciation.

Besides the two aforementioned base scenarios, ADL and CWI have several options they could consider. In our view, CWI's assets could also be split up in the future. For instance, CWI could sell its German residential units to ADL, perhaps in exchange for ADL's stake in CWI as one part of a potential deal, dispose its commercial units (potentially with support from ADL's network) and keep its Austrian residential units.

The next step in the purchase process

The next step for ADL to purchase Sagi's ~25% stake in CWI is to convene an EGM in due course to decide on the issuance of the € 175m mandatory CB, which is part of the financing for the stake.

ADL rating & PT under review; raising CWI to Buy, PT to € 13.30 (11.50)

The story seems very compelling to us, and we upgrade CWI to Buy (Hold) with a PT of € 13.30 (11.50) based on peer group and NAV models. The new PT presents a discount to our 2015e target EPRA NAV of 18% (currently ~25%), which should reflect the still-inherent execution risks e.g. i) the disposal of assets at market prices, ii) alignment with shareholders and iii) the challenging restructuring of CWI's financing.

We also appreciate this deal from ADL's perspective, as it has already demonstrated its value generation skills in past take-overs, e.g. Accentro (formerly Estavis) and Westgrund. In our view ADL will not dilute its business model going forward either with residential assets outside of Germany or commercial assets. Except for the commercial and Austrian assets, the CWI portfolio is a good fit for ADL's existing portfolio. As we are awaiting ADL's reported H1 2015 figures (due 31 August), which will also include the consolidation of Westgrund on the balance sheet, our PT and recommendation are currently under review.

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ADLER Real Estate AG – key figures

Capital			
ADL GY ADLG.DE			
Market Cap (EURm)			676
Enterprise value (EURm)			1,836
Extrema 12 months	14.82	-	4.84
Free Float (%)			49.8%
Performance (%)			
	1m	3m	12m
Absolute	4.8	2.6	95.5
Perf. rel. "sector"	-5.5	21.2	80.0
Perf. rel. CDAX	-6.6	12.2	118.2
Key figures*			
	12/15e	12/16e	12/17e
NRI (EURm)	u.r.	u.r.	u.r.
EBIT (EURm)	u.r.	u.r.	u.r.
Attr. net profit (EURm)	u.r.	u.r.	u.r.
EPS (EUR)	u.r.	u.r.	u.r.
FFOI ps (EUR)	u.r.	u.r.	u.r.
DPS (EUR)	u.r.	u.r.	u.r.
P/E (x)	u.r.	u.r.	u.r.
P/NAV (x)	u.r.	u.r.	u.r.
P/EPRANAV (x)	u.r.	u.r.	u.r.
FFOI yield (%)	u.r.	u.r.	u.r.
Dividend yield (%)	u.r.	u.r.	u.r.
ROE (%)	u.r.	u.r.	u.r.
Net LTV (%)	u.r.	u.r.	u.r.
NAVPS (EUR)	u.r.	u.r.	u.r.
EPRANAVPS (EUR)	u.r.	u.r.	u.r.
P/EPRANAV (x)	u.r.	u.r.	u.r.
Next Events			
H1 2015 Report			31 August 2015
* Figures are under review as we are awaiting ADL to report its H1 report			

conwert Immobilien invest SE – key figures

Capital			
CWI AV CONW.VI			
Market Cap (EURm)			990
Enterprise value (EURm)			2,458
Extrema 12 months	12.49 -		8.56
Free Float (%)			58.9%
Performance (%)	1m	3m	12m
Absolute	2.8	0.0	25.3
Perf. rel. "sector"	-0.2	-1.4	-10.3
Perf. rel. CDAX	9.2	5.4	4.9
Key figures	12/15e	12/16e	12/17e
NRI (EURm)	210	226	241
EBIT (EURm)	111	114	125
Attr. net profit (EURm)	38.5	47.5	57.0
EPS (EUR)	0.47	0.57	0.69
FFOI ps (EUR)	0.47	0.60	0.71
DPS (EUR)	0.24	0.32	0.38
P/E (x)	25.6	20.8	17.3
P/NAV (x)	0.91	0.89	0.86
P/EPRA NAV (x)	0.74	0.72	0.71
FFOI yield (%)	4.0	5.0	6.0
Dividend yield (%)	2.0	2.7	3.2
ROE (%)	3.4	4.1	4.9
Net LTV (%)	53.9	54.6	55.1
EPRA NAVPS (EUR)	13.09	13.43	13.80
P/EPRA NAV	16.16	16.50	16.87
Next Events			
Q2 Results 2015			26 August 2015

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Company	Conflict of interests
ADLER Real Estate AG	b, d, f
conwert Immobilien Invest SE	d

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SELL: The expected performance of the share price is below 0%.

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Recommendation history over the last 12 months for the ADLER Real Estate AG analysed in this report:

Date	Recommendation	Price at change date	Price target
19 August 2015	u.r.	EUR 14.68	EUR u.r.
11 March 2015	Restricted	EUR 13.54	Restricted
23 January 2015	BUY	EUR 8.47	EUR 12.00
21 November 2014	BUY	EUR 7.27	EUR 12.00
24 October 2014	BUY	EUR 8.00	EUR 12.00

08 September 2014	BUY	EUR 8.66	EUR 12.00
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Recommendation history over the last 12 months for the conwert Immobilien Invest SE analysed in this report:

Date	Recommendation	Price at change date	Price target
19 August 2015	BUY	EUR 11.97	EUR 13.30
28 July 2015	HOLD	EUR 11.01	EUR 11.50
28 May 2015	HOLD	EUR 12.28	EUR 11.50
08 April 2015	HOLD	EUR 11.50	EUR 11.50
18 March 2015	SELL	EUR 12.40	EUR 11.50
16 February 2015	SELL	EUR 12.00	EUR 11.50
27 November 2014	HOLD	EUR 9.43	EUR 10.50
28 August 2014	HOLD	EUR 9.85	EUR 10.50

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