



Investment Research

Buy

from

Share price: EUR 11.40

closing price as of 06/07/2016

Target price: EUR 16.00

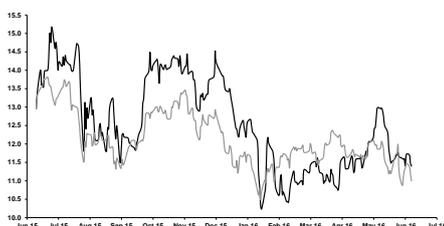
Reuters/Bloomberg

ADLG.DE/ADLGY

Daily avg. no. trad. sh. 12 mth	89,393
Daily avg. trad. vol. 12 mth (m)	1,010.43
Price high 12 mth (EUR)	15.18
Price low 12 mth (EUR)	10.24
Abs. perf. 1 mth	-12.0%
Abs. perf. 3 mth	-1.9%
Abs. perf. 12 mth	-11.9%

Market capitalisation (EURm)	526
Current N° of shares (m)	46
Free float	49%

Key financials (EUR)	12/15	12/16e	12/17e
Gross Rental Income (m)	132	164	182
EBITDA (m)	94	81	102
EBITDA margin	70.1%	48.5%	55.0%
Portfolio Result (m)	82	74	70
Net Financial Result	(80)	(94)	(88)
Net Profit (adj.)(m)	74	44	63
Funds From Operations	16.16	23.89	43.57
EPS (adj.)	1.56	0.78	1.10
DPS	0.00	0.00	0.00
IFRS NAVPS	12.68	13.51	14.67
EPRA NAVPS	15.50	16.33	17.48
Premium/(Discount)	12.2%	(15.6%)	(22.3%)
Earnings adj. yield	13.7%	6.9%	9.7%
Dividend yield	0.0%	0.0%	0.0%
EV/EBITDA	29.2	34.7	30.5
P/E (adj.)	9.1	14.6	10.3
Int. cover(EBITDA/Fin.int)	1.2	0.8	1.1
Net debt/(cash) (m)	2,093	2,281	2,580



Source: Factset — ADLER REAL ESTATE — CDAX (Rebased)

Shareholders: Klaus Wecken 23%; Mezzanine IX Investors S.A. 22%; Thomas Bergander 7%;

For company description please see summary table footnote

Reason: Initiation of Coverage

7 July 2016

Valuation discount not justified: Buy, TP EUR 16.00

ADLER Real Estate is a residential real estate company focusing on B locations in Germany. Last year the company more than doubled its portfolio through various acquisitions. We initiate coverage with a Buy recommendation and a target price of EUR 16.00 as 1) the market environment for German residential real estate should remain benign, 2) we expect ADLER to further improve the quality of its portfolio by reducing the vacancy ratio and increasing LtV, 3) ADLER's earnings (FFO I per share) should increase on average by 53% p.a. in 2016e/17e and last but not least the shares are trading at a discount versus its peer group which we think is not justified.

- ✓ **Market environment should remain benign:** Driven by the decline in long-term interest rates residential real estate prices have increased notably on average in Germany in recent years, particularly in metropolitan areas. Even if prices in some cities like Munich or Berlin should be close to the peak, we expect the market environment to remain benign as we do not foresee any increase in interest rates. Thus demand for residential real estate should remain high.
- ✓ **ADLER's portfolio quality should further improve:** ADLER's portfolio is characterized by a relatively high vacancy ratio (11%). ADLER focuses particularly on the active management of its portfolio to create value. As ADLER's units are mainly located in B locations where vacancy ratios are normally higher we see significant upside for ADLER's rental income if it succeeds in reducing vacancy ratios.
- ✓ **Funding costs should further decline:** ADLER has comparably high interest costs on its outstanding debt which is linked to its relatively high loan-to-value ratio. We see earnings upside if ADLER succeeds in reducing its loan-to-value ratio as this should c.p. result in lower interest costs. This should however be realized rather in the medium than in the short term given ADLER's debt maturity profile.
- ✓ **Financials:** We forecast average FFO I per share growth of 53% p.a. for 2016e/17e. In 2016e the first-time full-year consolidation of recent acquisitions should be the key driver while in 2017e the quality improvements of the portfolio should be the main drivers. NAV per share should increase by 13% between 2015 and 2017e to EUR 17.48.
- ✓ **Valuation and Recommendation:** We have derived a target price of EUR 16.00 from a peer group valuation with other German residential real estate companies. Given an upside of more than 30% we initiate coverage with a Buy rating and a target price of EUR 16.00.

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- Buy - The stock is expected to generate a total return of over 15% during the next 12 months time horizon.
- Accumulate - The stock is expected to generate a total return of 5% to 15% during the next 12 months time horizon.
- Neutral - The stock is expected to generate a total return of -5% to 5% during the next 12 months time horizon
- Reduce - The stock is expected to generate a total return of -15% to -5% during the next 12 months time horizon
- Sell - The stock is expected to generate a total return below -15% during the next 12 months time horizon

Basis of Valuation

equinet Bank uses for valuation purposes primarily DCF-Valuations and Sum-Of-The-Parts-Valuations as well as peer group comparisons.

Share prices

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Sources

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Marie-Curie-Str. 24-28, 60439 Frankfurt am Main.



Recommendation history for ADLER REAL ESTATE

Date	Recommendation	Target price	Price at change date
07-Jul-16	Buy	16.00	11.40

Source: Factset & ESN, price data adjusted for stock splits.

This chart shows equinet Bank continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Philipp Häßler, CFA (since 00/00/0000)



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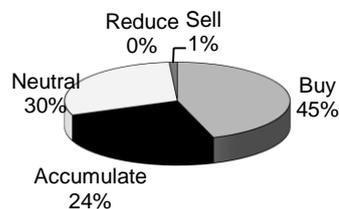
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- **Accumulate:** the stock is expected to generate total return of **5% to 15%** during the next 12 months time horizon
- **Neutral:** the stock is expected to generate total return of **-5% to +5%** during the next 12 months time horizon
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