

## Targets reiterated

- Operations on track:** On our recent US roadshow with Adler, the company explicitly reiterated this year's operational targets, as measured by an improvement in occupancy levels by c200bp to around 91% and an increase in lfl rents of 2% to c€5.04/sqm/month as in-place rents. We regard both targets as achievable considering the company's residential portfolio of c48,000 apartments with the majority located in Lower Saxony (35%), North Rhine-Westphalia (20%) and Saxony (16%). As with its peers, Adler's external growth has slowed down in the current year due to lack of supply in terms of sizeable residential portfolios. We would not regard this as a negative for Adler following its massive growth in previous years, as it now has the opportunity to enhance portfolio quality and speed up the internalisation of relevant asset management functions. By year-end 2017, the company hopes it will have completely internalised its asset and property management. In addition, Adler seems to be making progress with the disposal of non-core properties (c4,400 apartments), which should lead to a slight acceleration in operational momentum.
- Tender of Conwert shares:** Much time was spent during our roadshow discussing the company's decision to tender its shares in conwert following the takeover offer of Vonovia published on 5 September. The acceptance period will start in mid-November with completion expected by April 2017, and we would assume a fairly high acceptance level as the transaction for Vonovia is reasonable in our view, as indicated in our latest note. Following the transaction, Adler is set to become a mid-sized shareholder in Vonovia, and should be able to monetise its stake pretty rapidly. While we will adjust our estimates as soon as the deal materialises, we would regard the acceleration of financial deleverage by paying back expensive loans as presumably the most reasonable use of proceeds for the company. We also welcome the news that Adler is looking to obtain a credit rating from one of the three rating institutions.
- Gaining speed:** While 2016 is more a year of transition for Adler, we think that the company is moving into the right direction. We continue to believe that the underlying portfolio offers upside potential, given the current fair value/sqm of €752, and that management can fully focus on operations and on improving financial ratios following the conwert transaction. Arguably, as the completion of the transaction has yet to take place, Adler's share price has not performed that well – indeed, it is down by 1% ytd. With earnings levels expected to rise, we regard current valuation levels with an FFO yield of around 6.0% as fairly undemanding.

| Y/E 31/12., EURm            | 2014  | 2015  | 2016E | 2017E | 2018E |
|-----------------------------|-------|-------|-------|-------|-------|
| Total revenues              | 80    | 208   | 174   | 184   | 190   |
| Net rents                   | 56    | 132   | 164   | 172   | 177   |
| EBIT (inc revaluation net)  | 170   | 177   | 144   | 165   | 171   |
| EBIT (excl revaluation)     | 38    | 77    | 103   | 110   | 113   |
| Net profit (reported)       | 109   | 72    | 61    | 81    | 91    |
| Funds From Operations (FFO) | -1    | 16    | 29    | 40    | 47    |
| EPS reported                | 3.41  | 1.57  | 1.28  | 1.70  | 1.90  |
| FFO per share               | -0.04 | 0.35  | 0.61  | 0.83  | 0.99  |
| DPS                         | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| NAV per share               | 9.14  | 15.60 | 16.46 | 18.16 | 20.06 |
| NNAV per share              | 10.74 | 15.51 | 15.99 | 17.57 | 19.32 |
| EV/EBITDA                   | 32.3  | 35.4  | 25.9  | 23.9  | 22.9  |
| FFO yield                   | -     | 2.5%  | 4.3%  | 5.8%  | 7.0%  |
| P/FFO                       | -     | 40.6  | 23.2  | 17.1  | 14.4  |
| Dividend yield              | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| P/NAV per share             | 32%   | -8%   | -11%  | -19%  | -26%  |
| P/NNAV per share            | 32%   | -8%   | -11%  | -19%  | -26%  |
| Net gearing                 | 302%  | 265%  | 245%  | 215%  | 189%  |
| Loan-to-value (LTV)         | 75%   | 69%   | 66%   | 63%   | 61%   |
| Implied yield               | 3.8%  | 4.7%  | 5.5%  | 5.9%  | 6.2%  |

Source: Company data, Berenberg

25 October 2016

**BUY**

**Current price**      **Price target**  
EUR14.21              EUR14.00

21/10/2016 XETRA Close

Market cap (EURm)                      678  
Reuters                      ADLG.DE  
Bloomberg                      ADL GY

### Changes made in this note

Rating: Buy (no change)  
Price target: EUR14.00 (no change)

### Estimates changes

|       | 2016E |     | 2017E |     | 2018E |     |
|-------|-------|-----|-------|-----|-------|-----|
|       | old   | Δ%  | old   | Δ%  | old   | Δ%  |
| Rents | 164   | -   | 172   | -   | 177   | -   |
| EBIT  | 103   | -   | 110   | -   | 113   | -   |
| FFO   | 0.61  | 1.2 | 0.83  | 0.5 | 0.99  | 0.2 |

Source: Berenberg estimates

### Share data

Shares outstanding (m)                      48  
Enterprise value (EURm)                      2,691  
Daily trading volume                      85,000



BUY

25 October 2016

Reuters ADLG.DE  
Bloomberg ADL GY

**Current price**      **Price target**  
EUR14.21      EUR14.00  
21/10/2016 XETRA Close

Market cap (EURm)      678  
EV (EURm)      2,691  
Trading volume      85,000  
Free float      44.0%

#### Non-institutional shareholders

Mezzanine IX Investors: 21.8%  
Wecken & Cie: 21.8%  
Uhlandstrasse Inv GmbH: 6.6%

#### Share performance

High 52 weeks      EUR14.52  
Low 52 weeks      EUR10.24

#### Business description

Adler focuses on German residential real estate and has grown the portfolio substantially over the past few years to c48,000 units.

#### Performance relative to

|       | SXXP  | SDAX  |
|-------|-------|-------|
| 1mth  | -2.7% | -1.5% |
| 3mth  | 7.5%  | 8.3%  |
| 12mth | 12.9% | -1.8% |

## Investment thesis

- Adler's strategic focus is on German residential real estate. The company has grown its portfolio substantially since 2012 and now comprises c48,000 units following the takeover of Westgrund.
- The company has good access to portfolios, as demonstrated by a number of transactions being sourced on an off-market basis.
- Adler also generates additional fee income via subsidiary Accentro for real estate services provided to third parties.
- Our valuation is based on return on net asset value.

#### Profit and loss summary

| EURm                    | 2014  | 2015 | 2016E | 2017E | 2018E |
|-------------------------|-------|------|-------|-------|-------|
| Net rental income       | 46    | 130  | 148   | 157   | 163   |
| Total revenues          | 80    | 208  | 174   | 184   | 190   |
| Revaluation result      | 133   | 59   | 42    | 55    | 58    |
| Total operating expense | -42   | -89  | -70   | -73   | -75   |
| EBITDA                  | 171   | 178  | 145   | 166   | 173   |
| Adjusted EBITDA         | 38    | 78   | 104   | 111   | 114   |
| Financial result        | -38   | -82  | -69   | -64   | -59   |
| EBT                     | 133   | 95   | 76    | 100   | 112   |
| Net profit              | 109   | 72   | 61    | 81    | 91    |
| Funds from operations   | -1    | 16   | 29    | 40    | 47    |
| FFO/share               | -0.04 | 0.35 | 0.61  | 0.83  | 0.99  |
| Year-end shares         | 32    | 46   | 48    | 48    | 48    |
| DPS                     | 0.00  | 0.00 | 0.00  | 0.00  | 0.00  |

#### Cash flow summary

| EURm                     | 2014 | 2015 | 2016E | 2017E | 2018E |
|--------------------------|------|------|-------|-------|-------|
| FFO                      | -1   | 16   | 29    | 40    | 47    |
| CF operating activities  | 17   | 25   | 20    | 35    | 35    |
| Payments (acquisitions)  | 0    | -153 | -64   | -64   | -64   |
| Income (asset disposals) | -120 | 83   | 68    | 71    | 46    |
| Change in debt position  | 198  | 431  | 51    | -67   | -83   |
| Dividend paid            | 0    | 0    | 0     | 0     | 0     |
| Capital measures         | 19   | -1   | 0     | 0     | 0     |

#### Growth and margins

|                    | 2014   | 2015    | 2016E | 2017E | 2018E |
|--------------------|--------|---------|-------|-------|-------|
| Rental growth      | 347.8% | 182.8%  | 13.8% | 5.5%  | 4.3%  |
| Adj. EBITDA growth | 691.5% | 104.6%  | 33.6% | 6.9%  | 3.1%  |
| FFO growth         | 75.2%  | 1542.5% | 81.1% | 35.4% | 19.2% |
| Adj. EBITDA margin | 47.3%  | 37.5%   | 59.6% | 60.2% | 60.3% |
| Adj. EBIT margin   | 46.7%  | 37.0%   | 59.0% | 59.7% | 59.7% |
| FFO margin         | -2.4%  | 12.4%   | 19.7% | 25.3% | 28.9% |

#### Key ratios

|                 | 2014  | 2015  | 2016E | 2017E | 2018E |
|-----------------|-------|-------|-------|-------|-------|
| Net debt        | 985   | 2,093 | 2,009 | 1,968 | 1,934 |
| Net debt/equity | 3.5   | 3.0   | 2.7   | 2.4   | 2.1   |
| LTV             | 75%   | 69%   | 66%   | 63%   | 61%   |
| Net gearing     | 302%  | 265%  | 245%  | 215%  | 189%  |
| Interest cover  | 1.0   | 1.0   | 1.5   | 1.7   | 1.9   |
| Dividend cover  | -     | -     | -     | -     | -     |
| Payout ratio    | 0%    | 0%    | 0%    | 0%    | 0%    |
| Return on NAV   | -0.4% | 2.2%  | 3.7%  | 4.6%  | 4.9%  |

#### Valuation metrics

|                  | 2014 | 2015 | 2016E | 2017E | 2018E |
|------------------|------|------|-------|-------|-------|
| P / FFO          | -    | 40.6 | 23.2  | 17.1  | 14.4  |
| P / NAV          | 32%  | -8%  | -11%  | -19%  | -26%  |
| P / NNAV         | 32%  | -8%  | -11%  | -19%  | -26%  |
| FFO yield        | -    | 2.5% | 4.3%  | 5.8%  | 7.0%  |
| Dividend yield   | 0.0% | 0.0% | 0.0%  | 0.0%  | 0.0%  |
| EV / adj. EBITDA | 32.3 | 35.4 | 25.9  | 23.9  | 22.9  |

#### Key risks to our investment thesis

- Adler's current vacancy rates are higher than at its closest peers.
- While the average debt maturity is relatively long, the company should look to reduce its financial leverage.

## Financials

### Profit and loss account

| Year-end December(EUR m)   | 2014       | 2015       | 2016E      | 2017E      | 2018E      |
|--|------------|------------|------------|------------|------------|
| <b>Net rents</b>   | <b>56</b>  | <b>132</b> | <b>164</b> | <b>172</b> | <b>177</b> |
| Direct property expenses   | -10        | -1         | -15        | -16        | -14        |
| Net operating income   | 46         | 130        | 148        | 157        | 163        |
| Earnings from property disposals                                       | 2          | 22         | 8          | 9          | 7          |
| Earnings from project developments                                     | 0          | 0          | 0          | 0          | 0          |
| Earnings from other property activities                                | 1          | 3          | 3          | 3          | 3          |
| Other operating income   | 31         | 52         | 15         | 15         | 16         |
| <b>Total revenues</b>  | <b>80</b>  | <b>208</b> | <b>174</b> | <b>184</b> | <b>190</b> |
| Revaluation result from investment properties (net)                    | 133        | 59         | 42         | 55         | 58         |
| <b>Total income</b>  | <b>213</b> | <b>266</b> | <b>216</b> | <b>239</b> | <b>248</b> |
| Administrative expenses  | -5         | -11        | -16        | -17        | -17        |
| Personnel expenses   | -5         | -13        | -13        | -13        | -13        |
| Other operating expenses   | -33        | -64        | -41        | -43        | -44        |
| <b>Total operating expenses</b>  | <b>-42</b> | <b>-89</b> | <b>-70</b> | <b>-73</b> | <b>-75</b> |
| <b>EBITDA</b>  | <b>171</b> | <b>178</b> | <b>145</b> | <b>166</b> | <b>173</b> |
| <b>EBITDA excl revaluation result (net)</b>                            | <b>38</b>  | <b>78</b>  | <b>104</b> | <b>111</b> | <b>114</b> |
| Depreciation   | 0          | -1         | -1         | -1         | -1         |
| <b>EBITA</b>   | <b>170</b> | <b>177</b> | <b>144</b> | <b>165</b> | <b>171</b> |
| <b>EBITA excl revaluation result (net)</b>                             | <b>38</b>  | <b>77</b>  | <b>103</b> | <b>110</b> | <b>113</b> |
| Amortisation of goodwill   | 0          | 0          | 0          | 0          | 0          |
| Amortisation of intangible assets                                      | 0          | 0          | 0          | 0          | 0          |
| Impairment charges   | 0          | 0          | 0          | 0          | 0          |
| <b>EBIT (incl revaluation result net)</b>                              | <b>170</b> | <b>177</b> | <b>144</b> | <b>165</b> | <b>171</b> |
| <b>EBIT excl revaluation result</b>                                    | <b>38</b>  | <b>77</b>  | <b>103</b> | <b>110</b> | <b>113</b> |
| Interest income  | 2          | 3          | 3          | 3          | 3          |
| Interest expenses  | -41        | -84        | -71        | -67        | -62        |
| Depreciation of financial investment                                   | 0          | 0          | 0          | 0          | 0          |
| Investment income  | 2          | 0          | 0          | 0          | 0          |
| <b>Financial result</b>  | <b>-38</b> | <b>-82</b> | <b>-69</b> | <b>-64</b> | <b>-59</b> |
| <b>Earnings before taxes (incl revaluation result)</b>                 | <b>133</b> | <b>95</b>  | <b>76</b>  | <b>100</b> | <b>112</b> |
| <b>Earnings before taxes (excl revaluation result)</b>                 | <b>0</b>   | <b>33</b>  | <b>34</b>  | <b>45</b>  | <b>54</b>  |
| Total taxes  | -21        | -17        | -11        | -15        | -17        |
| <b>Net income from continuing operations (incl revaluation result)</b> | <b>112</b> | <b>78</b>  | <b>64</b>  | <b>85</b>  | <b>95</b>  |
| <b>Net income from continuing operations (excl revaluation result)</b> | <b>-21</b> | <b>16</b>  | <b>23</b>  | <b>30</b>  | <b>37</b>  |
| Income from discontinued operations (net of tax)                       | 0          | 0          | 0          | 0          | 0          |
| Extraordinary items (net of tax)                                       | 0          | 0          | 0          | 0          | 0          |
| Cumulative effect of accounting changes (net of tax)                   | 0          | 0          | 0          | 0          | 0          |
| <b>Net income (incl revaluation result net)</b>                        | <b>111</b> | <b>79</b>  | <b>64</b>  | <b>85</b>  | <b>95</b>  |
| <b>Net income (excl revaluation result net)</b>                        | <b>-22</b> | <b>17</b>  | <b>23</b>  | <b>30</b>  | <b>37</b>  |
| Minority interest  | 2          | 6          | 3          | 4          | 5          |
| <b>Net income (net of minority interest, incl revaluation result)</b>  | <b>109</b> | <b>72</b>  | <b>61</b>  | <b>81</b>  | <b>91</b>  |
| <b>Net income (net of minority interest, excl revaluation result)</b>  | <b>-24</b> | <b>11</b>  | <b>20</b>  | <b>26</b>  | <b>32</b>  |
| Funds from operations (FFO)  | -1         | 16         | 29         | 40         | 47         |

Source: Company data, Berenberg estimates

**Balance sheet**

| <b>Year-end December (EUR m)</b>                  | <b>2014</b>  | <b>2015</b>  | <b>2016E</b> | <b>2017E</b> | <b>2018E</b> |
|---|--------------|--------------|--------------|--------------|--------------|
| Intangible assets                                 | 29           | 132          | 132          | 132          | 132          |
| Investment properties                             | 1,170        | 2,270        | 2,291        | 2,351        | 2,436        |
| Development assets                                | 0            | 0            | 0            | 0            | 0            |
| Property, plant and equipment                     | 0            | 1            | 1            | 1            | 1            |
| Financial assets                                  | 2            | 353          | 353          | 353          | 353          |
| Other non-current assets                          | 1            | 2            | 2            | 2            | 2            |
| Deferred tax assets                               | 1            | 0            | 0            | 0            | 1            |
| <b>FIXED ASSETS</b>                               | <b>1,204</b> | <b>2,759</b> | <b>2,779</b> | <b>2,840</b> | <b>2,925</b> |
| Properties held for sale                          | 6            | 20           | 20           | 20           | 20           |
| Inventories                                       | 90           | 160          | 144          | 129          | 116          |
| Accounts receivable                               | 28           | 16           | 0            | 0            | 0            |
| Accounts receivable and other assets              | 84           | 88           | 73           | 75           | 76           |
| Liquid assets                                     | 33           | 50           | 124          | 99           | 33           |
| <b>CURRENT ASSETS</b>                             | <b>213</b>   | <b>317</b>   | <b>361</b>   | <b>323</b>   | <b>246</b>   |
| <b>TOTAL ASSETS</b>                               | <b>1,416</b> | <b>3,076</b> | <b>3,140</b> | <b>3,163</b> | <b>3,171</b> |
| Subscribed capital                                | 32           | 46           | 48           | 48           | 48           |
| Surplus capital                                   | 108          | 449          | 453          | 453          | 453          |
| Additional paid-in capital                        | 0            | 0            | 0            | 0            | 0            |
| Net profit/loss                                   | 152          | 224          | 285          | 366          | 457          |
| <b>SHAREHOLDERS' EQUITY</b>                       | <b>291</b>   | <b>719</b>   | <b>785</b>   | <b>866</b>   | <b>957</b>   |
| <b>MINORITY INTEREST</b>                          | <b>20</b>    | <b>59</b>    | <b>60</b>    | <b>61</b>    | <b>62</b>    |
| <b>PROVISIONS AND ACCRUED LIABILITIES</b>         | <b>6</b>     | <b>26</b>    | <b>26</b>    | <b>26</b>    | <b>27</b>    |
| short-term liabilities to banks                   | 48           | 249          | 249          | 246          | 283          |
| Bonds (long-term)                                 | 179          | 525          | 525          | 525          | 525          |
| long-term liabilities to banks                    | 791          | 1,368        | 1,359        | 1,296        | 1,158        |
| other interest-bearing liabilities                | 0            | 0            | 0            | 0            | 0            |
| <b>Interest-bearing liabilities</b>               | <b>1,018</b> | <b>2,142</b> | <b>2,133</b> | <b>2,067</b> | <b>1,967</b> |
| Accounts payable                                  | 21           | 20           | 20           | 20           | 25           |
| <b>Current liabilities</b>                        | <b>42</b>    | <b>60</b>    | <b>60</b>    | <b>58</b>    | <b>65</b>    |
| Deferred income                                   | 0            | 0            | 0            | 0            | 0            |
| Deferred taxes                                    | 39           | 70           | 76           | 85           | 93           |
| <b>LIABILITIES</b>                                | <b>1,099</b> | <b>2,273</b> | <b>2,269</b> | <b>2,209</b> | <b>2,125</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>1,416</b> | <b>3,076</b> | <b>3,140</b> | <b>3,163</b> | <b>3,171</b> |

Source: Company data, Berenberg estimates

### Cash flow statement

| EUR m  | 2014        | 2015         | 2016E      | 2017E      | 2018E      |
|--|-------------|--------------|------------|------------|------------|
| <b>Funds from operations</b>                 | -1          | 16           | 29         | 40         | 47         |
| <b>Other recurrent / non-recurrent items</b> | 0           | 0            | 0          | 0          | 0          |
| Increase/decrease in working capital         | -3          | 15           | 16         | 11         | 20         |
| <b>Cash flow from operating activities</b>   | <b>17</b>   | <b>25</b>    | <b>20</b>  | <b>35</b>  | <b>35</b>  |
| Capex  | 12          | 23           | 23         | 24         | 24         |
| Payments for acquisitions                    | 0           | -153         | -64        | -64        | -64        |
| Financial investments                        | -88         | -369         | 0          | 0          | 0          |
| Income from asset disposals                  | -120        | 83           | 68         | 71         | 46         |
| <b>Cash flow from investing activities</b>   | <b>-208</b> | <b>-439</b>  | <b>4</b>   | <b>7</b>   | <b>-18</b> |
| Increase/decrease in debt position           | 198         | 431          | 51         | -67        | -83        |
| Dividends paid                               | 0           | 0            | 0          | 0          | 0          |
| Purchase of own shares                       | 0           | 0            | 0          | 0          | 0          |
| Capital measures                             | 19          | -1           | 0          | 0          | 0          |
| Others                                       | 0           | 0            | 0          | 0          | 0          |
| <b>Cash flow from financing activities</b>   | <b>218</b>  | <b>430</b>   | <b>51</b>  | <b>-67</b> | <b>-83</b> |
| <b>Cash flow from operating activities</b>   | <b>17</b>   | <b>25</b>    | <b>20</b>  | <b>35</b>  | <b>35</b>  |
| <b>Cash flow after maintenance capex</b>     | <b>-1</b>   | <b>16</b>    | <b>29</b>  | <b>40</b>  | <b>47</b>  |
| <b>Cash flow before financing</b>            | <b>-27</b>  | <b>607</b>   | <b>128</b> | <b>147</b> | <b>121</b> |
| <b>Increase/decrease in liquid assets</b>    | <b>191</b>  | <b>1,038</b> | <b>180</b> | <b>80</b>  | <b>38</b>  |

Source: Company data, Berenberg estimates

### Ratios

| Ratios                             | 2014  | 2015 | 2016E | 2017E | 2018E |
|------------------------------------|-------|------|-------|-------|-------|
| <b>Return on equity</b>            |       |      |       |       |       |
| Net profit / Y/E equity            | -8.3% | 1.5% | 2.5%  | 3.0%  | 3.4%  |
| Recurring net profit / Y/E equity  | -0.4% | 2.2% | 3.7%  | 4.6%  | 4.9%  |
| Net profit / avg. equity           | -8.3% | 1.5% | 2.5%  | 3.0%  | 3.4%  |
| Recurring net profit / avg. equity | -0.4% | 2.2% | 3.7%  | 4.6%  | 4.9%  |
| <b>Security</b>                    |       |      |       |       |       |
| Net debt                           | 985   | 2093 | 2009  | 1968  | 1934  |
| Debt / equity                      | 349%  | 298% | 272%  | 239%  | 206%  |
| Net gearing                        | 302%  | 265% | 245%  | 215%  | 189%  |
| Interest cover                     | 1.0   | 1.0  | 1.5   | 1.7   | 1.9   |
| EBITDA / interest paid             | -0.9  | -0.9 | -1.5  | -1.7  | -1.8  |
| Dividend payout ratio              | 0%    | 0%   | 0%    | 0%    | 0%    |
| Dividend cover                     | -     | -    | -     | -     | -     |
| Loan-to-value (LTV)                | 75%   | 69%  | 66%   | 63%   | 61%   |
| Return on net asset value          | -0.4% | 2.2% | 3.7%  | 4.6%  | 4.9%  |
| <b>Liquidity</b>                   |       |      |       |       |       |
| Current ratio                      | 1.6   | 0.8  | 0.9   | 0.8   | 0.6   |
| Acid test ratio                    | 1.0   | 0.4  | 0.6   | 0.5   | 0.3   |

Source: Company data, Berenberg estimates

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Production of the recommendation completed: 25.10.2016, 08:08

**Historical price target and rating changes for Adler Real Estate AG in the last 12 months**

| Date             | Price target - EUR | Rating     | First dissemination GMT | Initiation of coverage |
|------------------|--------------------|------------|-------------------------|------------------------|
| <u>02 May 16</u> | <u>14.00</u>       | <u>Buy</u> | <u>2016-05-03 06:42</u> | <u>03 March 15</u>     |

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|      |         |         |
|------|---------|---------|
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| Hold | 36.46 % | 15.38 % |

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