



## ADLER Real Estate AG

Buy → | Target price : 17.50 EUR

Price (11/09/2016) : 13.45 EUR | Upside : 30 %

Est.chg	2016e	2017e
EPS	-	-

## Q3 preview: we expect a significant earnings contribution from disposals at Accentro and modest improvement in KPIs

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Capital

ADL GY | ADLG.DE

Market Cap (EURm)	620
Enterprise value (EURm)	2,839
Extrema 12 months	10.24 - 14.52
Free Float (%)	46.8

Performance (%)	1m	3m	12m
Absolute	-1.6	-1.9	-4.1
Perf. rel. Country Index	-1.6	-0.5	6.1
Perf. rel. MDAX	-1.6	-1.9	-4.1

P&L	12/16e	12/17e	12/18e
NRI (EURm)	129	144	149
EBIT (EURm)	257	199	196
Attr. net profit (EURm)	144	97.3	96.1
Adjusted EPS (EUR)	3.12	2.11	2.08
FFOI ps (EUR)	0.55	0.82	0.95
Dividend (EUR)	0.00	0.00	0.00
NAV ps (EUR)	18.72	20.83	22.92
EPRA NAV ps (EUR)	18.06	19.78	21.47

P/E (x)	4.3	6.4	6.4
P/NAV (x)	0.72	0.65	0.59
P/EPRA NAV (x)	0.74	0.68	0.63
FFOI Yield (%)	4.1	6.1	7.1
Dividend Yield (%)	0.0	0.0	0.0
FCF Yield (%)	neg	neg	21.05
ROE (%)	18.2	10.7	9.5
Net LTV (%)	71.7	70.0	67.2

## Next Events

14.11.2016 Q3 Results

### Expecting significant disposal earnings contribution from Accentro

Adler Real Estate (ADL) will report its Q3 2016 figures on Monday, 14 November. We forecast a slight FFO I increase qoq, and a doubling of FFO I yoy, mainly due to lower expenses from property lettings. Furthermore, we expect to see a significant contribution from Accentro in earnings from sale of properties.

#### Adler RE: Q3 2016 estimates

€ m	3Q 2015	2Q 2016	3Q 2016e	QoQ %	YoY %	3Q16 cons
Rental revenues	45.86	41.89	42.75	2.1%	-6.8%	n.a.
Earnings from property lettings	26.85	30.24	31.43	4.0%	17.1%	n.a.
Earnings from the sale of properties	2.38	11.02	28.76	161.1%	1109.4%	n.a.
Fair value adjustments of investment properties	11.34	21.04	5.00	-76.2%	-55.9%	n.a.
EBIT	29.98	50.84	55.43	9.0%	84.9%	n.a.
EBT	9.96	37.32	42.25	13.2%	324.3%	n.a.
Earnings per share (EUR)	0.05	0.54	0.78	42.8%	1337.5%	n.a.
FFO I	3.54	6.30	6.62	5.0%	87.1%	n.a.
FFO I p/s (EUR)	0.08	0.14	0.14	5.0%	87.1%	n.a.

Source : Oddo Securities ; Company Data

### Modest improvement of vacancy rate and LTV likely

There are no consensus estimates for Q3 2016e available. We forecast rental revenues of € 42.75m (-6.8% yoy, +2.1% qoq) and earnings from property lettings to € 31.4m (+17.1% yoy, +4.0% qoq) due to lower expenses from property lettings. We project significant property disposal earnings of € 28.8m given Accentro's announcement in August that it had sold a portfolio of 419 residential units centrally located in Berlin, for € 51m. We assume slight revaluation gains of € 5.0m in Q3. We expect EPS of € 0.78 (+87.1% yoy, +5% qoq), largely driven by the significant property disposal earnings. We forecast a strong – 87.1% – yoy increase in FFO I to € 6.6m mainly thanks to lower expenses from property lettings; sequentially, we project a slight increase in FFO I of 5%.

The successful placement, despite Brexit, of a € 137.9m convertible bond with a coupon of 2.5% p.a. in mid-July will have a beneficial effect on Adler's interest expense through refinancing. Part of this positive effect may already show up in the Q3 2016 financial result.

Furthermore, we expect Adler RE to show a modest improvement in its vacancy rate (11.1% at H1 2016) and its LTV of 67.7% (H1 2016), calculated as debt / total assets.

### Buy recommendation confirmed; TP unchanged at € 17.50

We confirm our Buy recommendation with an unchanged TP of € 17.50. Our TP implies a discount of ~18% to our 2018e EPRA NAVPS of € 21.47 and a discount of ~5% to our 2018e fully diluted EPRA NAVPS of € 18.42. The peer-average discount to 2018e EPRA NAVPS is ~10% – after the recent underperformance of the sector. On a 2018e P/FFO I basis, our TP of € 17.50 implies a multiple of 20x vs. a peer average of ~18x.

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**Property | Germany**

Buy

30.16%

Price 13.45EUR

TP 17.50EUR

	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
<b>PER SHARE DATA (EUR)</b>							
EPRA NAV per share	1.78	5.72	10.74	15.51	18.06	19.78	21.47
NAV per share	1.76	4.37	9.14	15.60	18.72	20.83	22.92
FFO I per share		-0.30	-0.05	0.41	0.55	0.82	0.95
Reported EPS	0.05	2.37	3.43	1.76	3.12	2.11	2.08
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	-0.22	-4.55	-5.95	-7.94	-0.81	-0.12	2.83
Number of shares market cap	15.00	16.55	31.88	46.10	46.10	46.10	46.10
Number of diluted shares	15.00	16.55	31.88	46.10	46.10	46.10	46.10
<b>VALUATION</b>							
12m highest price	1.59	4.32	8.96	16.24	14.52		
12m lowest price	0.58	1.24	3.67	7.44	10.24		
(*) Reference price	1.01	2.32	6.19	12.90	13.45	13.45	13.45
Capitalization	15.1	38.5	197	595	620	620	620
P/E (x)	22.0	1.0	1.8	7.3	4.3	6.4	6.4
P/FFO I (x)		neg	neg	31.6	24.6	16.4	14.1
FFO I Yield (%)		-12.9	-0.8	3.2	4.1	6.1	7.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout ratio (%)		0.0	0.0	0.0	0.0	0.0	0.0
FCF Yield (%)	neg	neg	neg	neg	neg	neg	21.1
P/NAV (x)	0.57	0.53	0.68	0.83	0.72	0.65	0.59
P/EPRA NAV (x)	0.57	0.41	0.58	0.83	0.74	0.68	0.63
(*) historical average price							
<b>PROFIT AND LOSS (EURm)</b>							
Rental revenue	0.0	11.0	56	132	173	193	199
NRI	0.0	7.6	32.1	92	129	144	149
Total revenue	0.0	8.7	34.4	115	183	159	162
Property revaluation	1.1	60	133	68	83	59	57
EBITDA	1.2	71	173	186	258	201	198
Adj. EBITDA							
EBIT	1.2	71	172	185	257	199	196
Net financial income	0.1	-7.9	-39.5	-81.4	-78.8	-79.7	-75.5
Corporate tax	-0.5	-16.1	-21.2	-16.5	-22.2	-14.0	-16.5
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities interests	0.0	-8.1	-2.4	-6.2	-12.5	-8.5	-8.4
Attributable net profit	0.7	39.2	109	81	144	97	96
FFO I		-4.5	-1.1	16.1	25.2	37.8	44.0
<b>BALANCE SHEET (EURm)</b>							
Intangible assets	0.0	0.0	1.7	1.4	1.4	1.4	1.4
Investment properties	14.5	418	1,170	2,270	2,554	2,753	2,814
Inventory	19.6	18.8	89.6	160	160	160	160
Assets held for sale	0.0	0.0	6.1	20.1	0.0	0.0	0.0
Financial assets	1.1	5.9	33.1	49.5	174	110	104
Ordinary shareholders equity	26.3	72.3	291	719	863	961	1,057
Minorities interests	0.1	14.6	19.8	58.6	71.1	79.5	87.9
Shareholder equity	26.4	86.9	311	778	934	1,040	1,145
Net debt	13.2	323	985	2,093	2,219	2,318	2,277
Deferred tax liabilities	0.4	15.6	39.1	70.1	86.9	95.7	104
<b>CASH FLOW STATEMENT (EURm)</b>							
Attributable net profit	0.7	39.2	109	81.1	144	97.3	96.1
Property revaluation	0.0	-53.0	-131.1	-58.9	-83.2	-58.8	-56.6
Interest & taxes	-0.6	0.0	-1.1	0.9	5.5	8.1	5.9
Others	0.5	32.1	63.0	104	113	102	100
Operating cash flow	0.3	19.0	18.5	80.9	195	152	149
Cash flow from investing activities	-3.5	-94.2	-208.3	-447.1	-232.5	-157.5	-18.4
Cash flow from financing activities	0.1	88.1	218	431	162	-58.5	-136.8
Free cash flow	-3.3	-75.2	-189.7	-366.2	-37.6	-5.7	130
<b>GROWTH MARGINS PRODUCTIVITY</b>							
Rental revenue growth			408%	135%	31.4%	11.5%	3.0%
FFO I growth			-75.0%	ns	56.3%	50.0%	16.5%
EPS growth		ns	43.6%	-48.1%	76.6%	-32.4%	-1.2%
NRI margin	ns	69.1%	57.2%	69.6%	74.3%	74.7%	75.1%
EBITDA margin	ns	ns	308%	141%	149%	104%	99.4%
Adj. EBITDA margin							
Tax rate	40.2%	25.4%	16.0%	15.9%	12.4%	11.7%	13.6%
SG&A / NRI	-486%	-20.1%	-31.2%	-21.3%	-16.8%	-14.0%	-13.9%
FFO I / Real estate (Total properties)							
FFO I / Rental revenues		-51.7%	-3.3%	14.0%	13.8%	23.7%	27.2%
Property revaluation / Investment properties							
ROA	1.6%	8.5%	7.7%	2.6%	4.1%	2.7%	2.6%
ROE		79.6%	59.7%	16.1%	18.2%	10.7%	9.5%
<b>DEBT RATIOS</b>							
Equity ratio	60%	19%	22%	25%	27%	28%	
Net LTV	39%	74%	78%	75%	72%	70%	67%
Gearing	50%	372%	316%	269%	238%	223%	
Net debt / Adj. EBITDA							
Adj. EBITDA / net financial charges							

## Mention of conflicts of interest

### • Valuation method

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

### • Our stock market recommendations

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

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## Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
<b>Recommendation split</b>				
		<b>Buy</b>	<b>Neutral</b>	<b>Reduce</b>
Our whole coverage	(414)	48%	41%	11%
Liquidity providers coverage	(147)	53%	41%	5%
Research service coverage	(66)	65%	32%	3%
Investment banking services	(33)	70%	27%	3%

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