



ADLER Real Estate AG

Buy → | Target price : 17.50 EUR

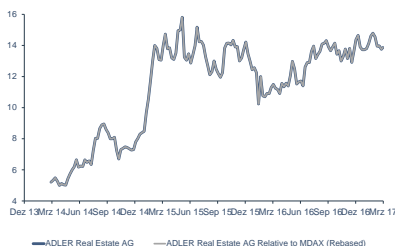
Price (29/03/2017) : 13.87 EUR | Upside : 26 %

| | Est.chg | 2016e | 2017e |
|-----|---------|-------|-------|
| EPS | - | - | - |

Strong FFO I and valuation gains in FY 2016 – positive outlook for 2017e

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2016 FFO I beats our estimate

Adler (ADL) recently reported its FY 2016 results. The top line was slightly below our estimate but FFO exceeded our expectation. Rental revenue of € 252.4m (+16.5 % yoy), slightly missed our estimate of € 259.0m and the company's guidance of € 260m. ADL posted strong revaluation gains of € 199.7m, +194.3% yoy, of which € 76.2m were registered in Q4 2016, mainly driven by yield compression. FFO I increased a strong 70% yoy to € 27.3m, exceeding the company's guidance of € 25m and our estimate of € 23.5m. FFO I p/s of € 0.47 matched consensus.

ADL gave positive guidance for 2017, including:

- FFO I of € 40m (+46.5%), mainly driven by debt repayment and improved operational performance
- EPRA NAV of € 1,250m (+16.8%) mainly driven by fair value adjustments
- LTV reduction to 55% through ongoing deleveraging and fair value adjustments

Adler Real Estate: FY 2016 results

| € m | 2015 | 2016 | YoY % | 2016e | YoY % | 2016 cons |
|---|--------|--------|--------|--------|-------|-----------|
| Gross rental income (including utilities) | 216.64 | 252.40 | 16.5% | 259.04 | 19.6% | 237.20 |
| Fair value adjustments of investment properties | 67.86 | 199.68 | 194.2% | 83.22 | 22.6% | n.a. |
| FFO I | 16.10 | 27.30 | 69.6% | 23.51 | 46.1% | n.a. |
| FFO I p/s (EUR) | 0.41 | 0.47 | 14.8% | 0.51 | 24.4% | 0.47 |

Source : Oddo Securities ; Adler Real Estate

2017e outlook confirms our positive view on ADL

ADL's reported FY 2016 figures and 2017e outlook confirm our positive view on the company. It is successfully focussing on deleveraging, refinancing and improving KPIs, reflected among other things by its lower LTV (excl. convertibles and calculated on total assets) of 61.3% (2015: 68%) and improved vacancy rate of 10% (2015: 11.2%). ADL might intend to call a 6% € 130m bond in April 2017 in order to obtain less expensive refinancing.

The 2017e guidance exceeded our expectations. FFO I guidance: € 40m (our estimate: € 36m), EPRA NAV guidance: € 1,250m (our estimate: € 1,120m) and LTV guidance excl. convertibles and calculated on total assets: 55% (our estimate on comparable basis: 61.1%).

Yield compression was the main driver of the strong FY 2016 revaluation gains of € 199.7m, which equates to a valuation uplift of ~8%. The company provided no precise regional breakdown except that the Berlin and Wilhelmshaven sub-portfolios outperformed all other regions. Management sees further upside potential for revaluation gains, embedded in its EPRA NAV growth assumption of +16.8% yoy in 2017.

We reiterate our Buy recommendation and TP of € 17.50

We believe the capital market will eventually reward deleveraging and further KPI improvement, i.e. that deleveraging could lead to a reduction of ADL's discount to EPRA NAV. ADL currently trades at a significant discount of ~20% to our fully diluted 2017e EPRA NAVPS of € 17.27 while peers trade at an average discount to EPRA NAV of close to ~4%. We confirm our Buy recommendation with an unchanged TP of € 17.50.

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Capital

ADL GY | ADLG.DE

| | |
|-------------------------|---------------|
| Market Cap (EURm) | 661 |
| Enterprise value (EURm) | 2,817 |
| Extrema 12 months | 10.75 - 15.25 |
| Free Float (%) | 46.8 |

Performance (%)

| | 1m | 3m | 12m |
|--------------------------|------|------|------|
| Absolute | -7.7 | 0.2 | 23.6 |
| Perf. rel. Country Index | -9.7 | -4.6 | 10.0 |
| Perf. rel. MDAX | -7.7 | 0.2 | 23.6 |

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) | 3.02 | 2.04 | 2.02 |
| FFOI ps (EUR) | 0.54 | 0.79 | 0.92 |
| Dividend (EUR) | 0.00 | 0.00 | 0.00 |
| NAV ps (EUR) | 18.14 | 20.18 | 22.19 |
| EPRA NAV ps (EUR) | 17.60 | 19.27 | 20.92 |

| | | | |
|--------------------|------|------|-------|
| P/E (x) | 4.2 | 6.8 | 6.9 |
| P/NAV (x) | 0.69 | 0.69 | 0.62 |
| P/EPRA NAV (x) | 0.71 | 0.72 | 0.66 |
| FFOI Yield (%) | 4.3 | 5.7 | 6.7 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 |
| FCF Yield (%) | neg | neg | 19.72 |
| ROE (%) | 18.2 | 10.7 | 9.5 |
| Net LTV (%) | 71.6 | 69.9 | 67.2 |

Next Events

| | |
|------------|------------------|
| 05.05.2017 | Earnings Release |
| 19.05.2017 | Earnings Release |
| 18.08.2017 | Earnings Release |

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ADLG.DE | ADL GY
Property | Germany

Buy
Upside

26.22%

Price 13.87EUR

TP 17.50EUR

| PER SHARE DATA (EUR) | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e | 12/18e |
|--|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| EPRA NAV per share | 1.78 | 5.72 | 10.74 | 15.51 | 17.60 | 19.27 | 20.92 |
| NAV per share | 1.76 | 4.37 | 9.14 | 15.60 | 18.14 | 20.18 | 22.19 |
| FFO I per share | | -0.30 | -0.05 | 0.41 | 0.54 | 0.79 | 0.92 |
| Reported EPS | 0.05 | 2.37 | 3.43 | 1.76 | 3.02 | 2.04 | 2.02 |
| 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 | -0.75 | -0.12 | 2.73 |
| Number of shares market cap | 15.00 | 16.55 | 31.88 | 46.10 | 47.68 | 47.68 | 47.68 |
| Number of diluted shares | 15.00 | 16.55 | 31.88 | 46.10 | 47.68 | 47.68 | 47.68 |
| VALUATION | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e | 12/18e |
| 12m highest price | 1.59 | 4.32 | 8.96 | 16.24 | 14.52 | 15.25 | |
| 12m lowest price | 0.58 | 1.24 | 3.67 | 7.44 | 10.24 | 13.70 | |
| (*) Reference price | 1.01 | 2.32 | 6.19 | 12.90 | 12.56 | 13.87 | 13.87 |
| Capitalization | 15.1 | 38.5 | 197 | 595 | 599 | 661 | 661 |
| P/E (x) | 22.0 | 1.0 | 1.8 | 7.3 | 4.2 | 6.8 | 6.9 |
| P/FFO I (x) | | neg | neg | 31.6 | 23.1 | 17.5 | 15.0 |
| FFO I Yield (%) | | -12.9 | -0.8 | 3.2 | 4.3 | 5.7 | 6.7 |
| 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 | 19.7 |
| P/NAV (x) | 0.57 | 0.53 | 0.68 | 0.83 | 0.69 | 0.69 | 0.62 |
| P/EPRA NAV (x) | 0.57 | 0.41 | 0.58 | 0.83 | 0.71 | 0.72 | 0.66 |
| (*) historical average price | | | | | | | |
| PROFIT AND LOSS (EURm) | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e | 12/18e |
| 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 |
| BALANCE SHEET (EURm) | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e | 12/18e |
| 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 | 176 | 112 | 105 |
| Ordinary shareholders equity | 26.3 | 72.3 | 291 | 719 | 865 | 962 | 1,058 |
| Minorities interests | 0.1 | 14.6 | 19.8 | 58.6 | 71.1 | 79.5 | 87.9 |
| Shareholder equity | 26.4 | 86.9 | 311 | 778 | 936 | 1,042 | |
| Net debt | 13.2 | 323 | 985 | 2,093 | 2,218 | 2,316 | 2,275 |
| Deferred tax liabilities | 0.4 | 15.6 | 39.1 | 70.1 | 86.9 | 95.7 | 104 |
| CASH FLOW STATEMENT (EURm) | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e | 12/18e |
| 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 | -230.9 | -157.5 | -18.6 |
| 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 | -36.0 | -5.7 | 130 |
| GROWTH MARGINS PRODUCTIVITY | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e | 12/18e |
| 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% | 70.8% | -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 | | | | | | | |
| Property revaluation / Investment properties | | -51.7% | -3.3% | 14.0% | 13.8% | 23.7% | 27.2% |
| 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% |
| DEBT RATIOS | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e | 12/18e |
| Equity ratio | 60% | 19% | 22% | 25% | 27% | 28% | |
| Net LTV | 39% | 74% | 78% | 75% | 72% | 70% | 67% |
| Gearing | 50% | 372% | 316% | 269% | 237% | 222% | |
| Net debt / Adj. EBITDA | | | | | | | |
| Adj. EBITDA / net financial charges | | | | | | | |

- **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.

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The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

- **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 |
|------------------------------|-------|--------------------|----------------|---------------|
| Recommendation split | | | | |
| | | Buy | Neutral | Reduce |
| Our whole coverage | (417) | 47% | 43% | 9% |
| Liquidity providers coverage | (154) | 51% | 44% | 5% |
| Research service coverage | (66) | 56% | 41% | 3% |
| Investment banking services | (39) | 67% | 28% | 5% |

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