

Consus Real Estate

Real estate

7 January 2020

Embracing the 'build-to-hold' business model

On 15 December, Consus announced that Ado Properties had acquired a c 22% stake in the company for €294m in cash. The purchase price of €9.72 per share represents a c 58% premium to the closing price of €6.15 on 13 December. As a result, Ado's current holding is c 25%, with a call option for a further 51% stake. On exercise of the option, Ado intends to make an exchange offer for the remaining shares. The announcement follows the agreed merger of Ado and Adler Real Estate and will make it the third-largest listed residential company in Germany. Moreover, Ado and Consus signed a strategic co-operation agreement on joint development projects.

Forming a Germany-wide player with c €12bn of GAV

Ado is a Berlin-focused residential real estate company looking to expand its housing stock, while Adler's operations, centred on affordable housing, are more widely spread across Germany. Adding Consus's pipeline of residential development projects across the top nine German cities to these complementary portfolios would fuel their expansion through acquisitions of new-build assets in inner-city locations. Combined gross asset value (GAV) would be c €12bn and the deal would allow for operating (€28–38m pa) and financial (€152–172m pa) synergies (per Ado figures).

Call option to acquire a further 51% stake in Consus

As part of the deal, Ado has received an option for the purchase of an additional 51% stake in Consus from Aggregate Holdings until mid-2021, which would be settled in new Ado shares (0.2390 per Consus share). The same parity would be offered to remaining minority shareholders in a voluntary exchange offer, which may follow the exercise of this option, potentially leading to a complete takeover of Consus. At the same time, Aggregate holds a put option for its 51% stake in Consus with a similar compensation in kind or a cash consideration of €8.35 per share, which could be exercised on change of control at Ado.

Ado eyes investment-grade rating of combined group

As the strategic co-operation agreement grants Ado the right to match third-party offers to purchase jointly developed assets, the business model of the combined group effectively transforms to 'build-to-hold', which enhances its risk profile. Consequently, S&P upgraded its Consus rating outlook from 'stable' to 'positive', and affirmed B and B- ratings for the company and its secured notes respectively. Since the deal announcement, Consus's share price has increased by c 17%, implying a P/E ratio based on FY19e consensus estimates of 59.7x.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	467.6	(11.5)	(0.15)	0.00	N/A	N/A
12/19e	1183.1	52.0	0.12	0.00	59.7	N/A
12/20e	2093.4	197.7	0.74	0.00	9.7	N/A
12/21e	2213.4	272.2	1.09	0.05	6.6	0.7

Source: Consus accounts, Refinitiv consensus at 7 January 2020

Price **€7.16**
Market cap **€978m**

Share price graph



Share details

Code	CC1
Listing	Deutsche Börse Scale
Shares in issue	136.6m
Last reported net debt at 30 September 2019	€2.48bn

Business description

Consus Real Estate, based in Berlin, is the leading listed residential real estate developer in the nine largest cities in Germany. Following acquisition of SSN Group, the company's portfolio consists of 67 projects with a gross development value of €10.3bn.

Bull

- Supply shortage in the German residential market.
- Cost-effective and lower-risk business model.
- Extensive development pipeline.

Bear

- Lower selling prices due to forward-sale model.
- Bottlenecks in the German residential market.
- Dependency on institutional clients.

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