

Fair Value REIT AG

Offer from Demire still recommended

Fair Value REIT has responded to Demire's takeover offer by reiterating that it welcomes the potential to grow the company in combination with Demire. The board still deems the two-for-one share offer to be fair, even though Demire's acquisition of the T6 portfolio was completed at €2.9m higher than the expected price, thus slightly reducing the potential positive effect on Demire's equity.

Creating a significant commercial real estate player

Combining FVI (Q215 gross investment assets of €306m) and Demire (pro forma gross investment assets of €700m) would create a focused German commercial real estate player with c €1bn gross assets under management. The portfolios complement each other geographically and by sector. At the time of the announcement, the proposed exchange ratio represented a 37.2% premium to FVI's share price at 30 July, and a 27.6% premium to the trade-weighted share price of the previous three months. The offer depends on 50.1% acceptance and is capped at 94.9% to avoid the triggering of land transfer tax.

Possible effects

DMRE has taken on more gearing than FVI in aggressively growing its portfolio so financing costs and LTV ratio would at least temporarily increase for FVI shareholders if the offer is accepted. The combined entity will have a larger asset base that offers cost synergies and could be capable of delivering cash flow for further debt reduction and a solid covenant to help reduce the cost of debt. LTV of 50-60% is targeted in the medium term. The intention is for FVI's REIT status and dividend policy to be maintained. A more detailed treatment of the offer is available in our [September update note](#).

Valuation: Estimates suspended during offer period

We have suspended our estimates during the offer period, which ends on 16 November. The rationale for an FVI shareholder to accept the offer would be the future potential for enhanced returns and faster growth from the combined entity. FVI has issued a statement about the offer on its [website](#) and the board has now unconditionally reiterated its recommendation that shareholders accept the offer since the announcement of the T6 transaction's completion.

Historical financials

Year end	Revenue (€m)	EPRA net profit (€m)	EPRA EPS (€)	DPS (€)	P/NAV (x)	Yield (%)
12/13	36.4	6.4	0.69	0.25	0.90	3.1
12/14	30.1	4.4	0.47	0.25	0.94	3.1

Source: Fair Value REIT. Note: *Net profit and EPS are on an underlying EPRA basis (also referred to as FFO), excluding valuation movements and exceptional. P/NAV is also on an EPRA basis.

Real estate

Price €7.75

Market cap €109m

Share price graph



Share details

Code	FVI
Shares in issue	14.03m
Net debt (€m) at 30 June 2015	133

Business description

Fair Value REIT (FVI) is a real estate investment trust managing c 275,000sqm at 44 commercial properties across Germany (at 30 June 2015). It has a diversified portfolio of office and retail assets with a focus on regional locations.

Bull

- Scale and synergies from takeover offer launched 31 July.
- Attractive yield.
- Flexible cost base.

Bear

- Potential increase in cost of debt and LTV.
- Takeover may reduce dividend.
- Takeover could affect REIT status.

Analysts

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