FitchRatings

NON-RATING ACTION COMMENTARY

# Sale of Aareon Neutral to Areal's Rating

Mon 24 Jun, 2024 - 1:07 PM ET

Fitch Ratings-Frankfurt am Main-24 June 2024:
The sale of Aareon by Aareal Bank (BBB/Stable) to private equity investors TPG and CDPQ, which was announced today, has no impact on Aareal's ratings, Fitch Ratings says. Aareon is a provider of IT solutions to the property industry, which is 70%-owned by Aareal and 30% by Advent International.

We do not expect Aareal's operating performance to be significantly affected by the sale because, while adding diversification to Aareal's revenues, Aareon does not perform a core activity for the commercial real estate lender. Aareon provides IT development and software solutions for the management of about 18 million property units. Sizeable investments into its growth had led to the subsidiary's negative profit contribution to the group until in 1Q24 when it added EUR10 million to Aareal's consolidated operating profit.

According to Aareal, the sale will lead to a significant net gain of approximately EUR2 billion, which will be booked on closing, expected in 2H24. However, most transaction-related costs of around EUR150 million will have to be recognised in the second quarter. The transaction will temporarily increase Aareal's financial flexibility materially, leading to high capital ratios that are well above peers'. However, we expect Aareal's shareholders to distribute a substantial proportion of the proceeds, subject to regulatory approval.

We expect that Aareal will continue its long-term collaboration with Aareon through a joint venture that allows Aareal to gather the institutional housing deposits of its own and Aareon's clients. These deposits are a funding strength relative to peers because they lower Aareal's reliance on wholesale funding.

The bank, excluding Aareon, reported EUR92 million operating profit in 1Q24, which means that it is on track to achieve its target operating profit of EUR250 million to EUR300 million in 2024. The bank's consolidated common equity tier 1 ratio stood at 19.7% at end-1Q24. During the first quarter, Aareal managed to reduce its portfolio of non-performing loans (NPLs) for US office properties by about EUR500 million without requiring additional risk provisions. This led to a reduction of the total NPL ratio by about 100bp from end-2023.

Fitch downgraded Aareal in February 2024 and assigned a Stable Outlook despite continuing challenges in the US office property market, which we expected to weigh on Aareal's asset quality. We believe that the bank's pre-impairment operating profit will continue to provide a sufficient buffer for higher loan impairment charges in the coming quarters. The announced transaction would, depending on shareholder distributions, provide additional buffers if it maintains stronger capitalisation after the sale.

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