

Aroundtown Property Holdings Plc.

Germany / Real Estate
 Frankfurt Stock Exchange
 Bloomberg: AT1 GR
 ISIN: CY0105562116

H1/17
 Update

RATING
BUY

PRICE TARGET
€ 7.20

Return Potential 28.6%
 Risk Rating Medium

STRONG PORTFOLIO EXPANSION; RAISING ESTIMATES

Second quarter results confirm our view that Aroundtown (AT) is in the middle of a strong growth phase and well positioned to deliver further growth and profitability. The company has grown its commercial portfolio some 56% YTD - far outpacing its peers. Q2 rental income and FFO I improved Y/Y and beat our targets. Revaluations also continued to rise. We have raised our forecasts to account for the strong H1 and full pipeline. Our updated valuation model yields a price target of €7.20 (previously €6.40). Our rating remains Buy.

Recent stock performance beginning to reflect strong operations We regard AT as an attractive growth play in the German commercial property segment with appealing valuation metrics. The share trades at a 22% discount to our projected 2017E NAVPS (figure 3 overleaf). Thanks to its strong deal flow and overall sourcing prowess, we believe the company can continue its high external growth trajectory to compliment strong operating performance and spur FFO I and NAV growth. Although external growth is unlikely to match the very high level of the previous years (commercial investment properties 2015-16 CAGR 243%), the company has already expanded commercial properties 56% to €7.8bn YTD (as of October). Moreover, the AT portfolio is embedded with further FFO I and revaluation growth potential (+30%). We target FFOPS I and NAVPS growth of 32% and 33% respectively in 2017. In our view, the compelling equity story is beginning to be reflected in the share price performance with the stock having appreciated some 11.5% in August. The stock still trades at a discount to peers despite unmatched external growth performance.

Sizable exposure to office segment We also like the company for its high office exposure (60% of commercial portfolio), which stacks up favourably to the major commercial players (figure 1 overleaf). As of June reporting, AT has grown office assets some 50% to €4.5bn versus €3.0bn in February 2017. We contend that the office segment features favourable supply / demand and rental growth ratios versus other commercial segments such as retail. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Rental income (€m)	257.17	125.16	273.70	479.55	623.96	720.71
Y/Y growth	42.1%	-51.3%	118.7%	75.2%	30.1%	15.5%
Adj. EBITDA (€m)	59.67	92.72	194.54	320.71	422.58	490.05
Net income	898.45	920.75	901.09	1095.37	696.53	783.58
EPS (diluted) (€)	1.41	1.01	0.88	0.93	0.56	0.63
EPRA NAV ¹ (€m)	1273.27	2720.69	4349.05	6259.94	6693.10	7143.67
DPS (€)	0.00	0.05	0.16	0.20	0.27	0.30
FFO I (€m)	38.75	94.05	165.63	273.06	358.70	408.05
FFOPS I (€)	0.08	0.17	0.25	0.34	0.41	0.47
Liquid assets (€m)	175.75	386.98	833.44	336.68	254.73	251.41

* Note that GCP was deconsolidated at the end of 2014. ¹ Includes perpetual notes.

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavourable macroeconomic developments, and the departure of key personnel.

COMPANY PROFILE

Aroundtown Property Holdings Plc is a specialist real estate company focused on investing in and managing value-add properties primarily located in the German/NL real estate markets.

MARKET DATA

As of 31 Aug 2017

Closing Price	€ 5.60
Shares outstanding	872.31m
Market Capitalisation	€ 4884.94m
52-week Range	€ 3.97 / 5.60
Avg. Volume (12 Months)	665,773

Multiples	2016	2017E	2018E
P/FFO I	22.1	16.7	13.6
P/EPRA NAV	1.1	0.9	0.9
FFO I/Yield	4.5%	6.0%	7.3%
Div. Yield	2.8%	3.6%	4.8%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2017

Liquid Assets	€ 324.50m
Current Assets	€ 1,123.50m
EPRA NAV ¹	€ 6,160.00m
Total Assets	€ 10,821.10m
Current Liabilities	€ 601.20m
Total Equity	€ 6,005.80m

¹ includes perpetual notes

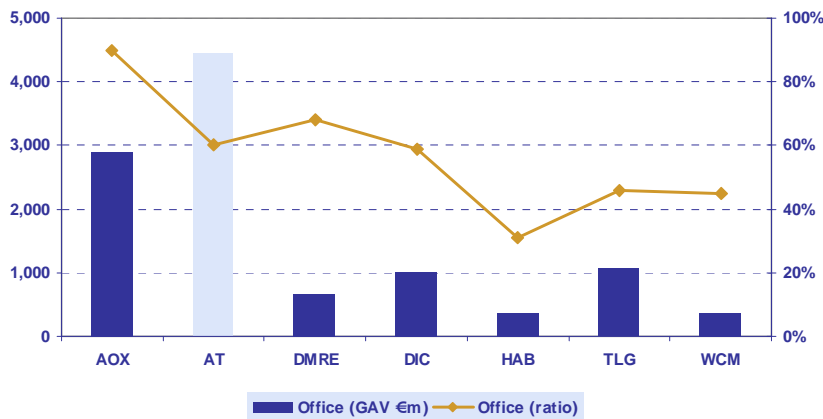
SHAREHOLDERS

Avisco Group	44.0%
Free Float	56.0%



According to the Q2 report by Jones Lang LaSalle (JLL), office vacancies continued to decline in Q2/17 even after being nearly halved over the last five years. The supply of suitable space remains scarce in all of Germany's top metropolitan districts. In Q2, vacant office space in the major hubs totalled some 4.7m² equal to a 5.1% vacancy rate, while prime rents were up some 3.8% Y/Y. We expect these fundamentals to continue to drive property valuations and NAV growth.

Figures 1: Total office assets and ratio of total portfolios for key commercial players



Source: First Berlin Equity Research, Alstria, Aroundtown, Demire, DIC Asset, Hamborner, TLG, WCM

Berlin is currently the German commercial property stronghold with its excellent fundamentals. Similar to the evolution of the residential property market, the commercial sector is playing catch up from low levels. According to JLL data, the Berlin office vacancy rate stood at 4.2% in Q1 after being cut nearly in half over the last five years, whereas office prime rents increased by 17% Y/Y in Q1. The Berlin job market is flourishing fuelled by the start-up community that is attracting creative talents from abroad intensifying both housing and workplace shortages. Aroundtown has a solid Berlin component in its portfolio with some 22% of its commercial portfolio (including 18% of the office component) well-placed in the German capital to absorb the sprawling economic expansion. Of the major listed players, only TLG has a higher Berlin exposure.

Figure 2: AT's Berlin assets in central districts



* map representing approx. 93% of the portfolio and 99% including central Potsdam

Source: First Berlin Equity Research, Company



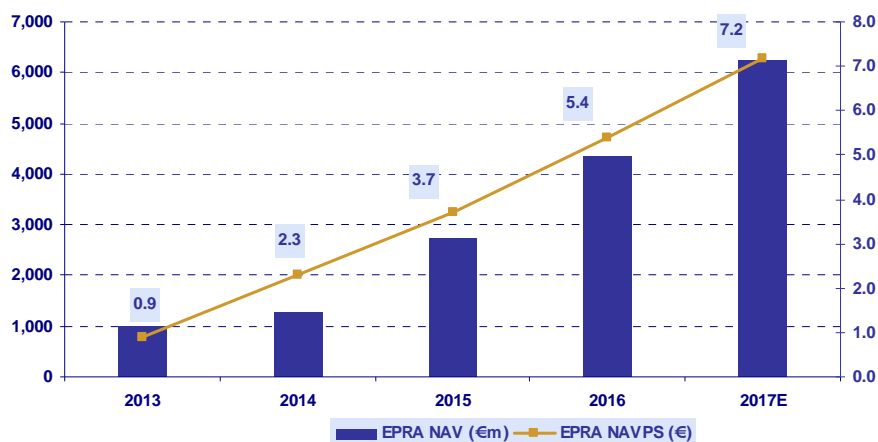
COMBINING EXTERNAL AND OPERATIONAL GROWTH

Aroundtown is a high-growth commercial property player with a focus on value-add assets located in densely populated metropolitan districts that offer good rent revisionary potential and revaluation upside. The company also has residential property exposure with its 36% stake in Grand City Properties.

Success starts with a strong deal sourcing network and balance sheet Aroundtown excels in deal sourcing owing to a wide network built up over the last 13 years. Thanks to management's credentials, the company has earned so-called "preferred-buyer" status among various banks, investment funds, brokers, and distressed property owners. This often allows the company to cherry pick deals in "off-market" transactions from owners and continues to propel the strong growth realised thus far this year. We believe Aroundtown's network and long standing relationships will also serve the company well as it takes a more pan-European view of the market over the medium term.

Management can also leverage excellent access to the capital markets as well as AT's strong balance sheet and liquidity position to secure distressed assets with embedded FFO and valuation upside that can be extracted with well executed operational and repositioning measures. The resulting high growth mode has led to the acquisition of some €4.5bn in commercial assets over the last two and half years, driving NAV growth (NAVPS 80% CAGR 2014 – H1/17 including perpetual notes).

Figure 3: NAV and NAVPS developments (including hybrid notes)



Source: First Berlin Equity Research, Aroundtown

Aroundtown is in the midst of a significant expansion phase. Acquisition volumes topped €1.4bn in 2015 and €2.3bn in 2016. Through the six month period of 2017, deals approached the €2.2bn mark. And we expect this to continue over the near term, thanks to a healthy deal pipeline management currently estimates to be around €1.0bn. This includes ample candidates to expand the office and hotel segments.



An abundance of financing firepower to drive growth Despite its relatively short history, the company has demonstrated excellent access to capital markets having raised some €5.0bn over a variety of issuances since 2016. Management have been very active in optimising the capital structure in the past two years including over €1.3bn in new equity already this year. In July, Aroundtown placed a €500m straight bond with a 1.875% fixed rate due in 2026 as part of its €1.5bn Euro Medium Term Note Programme (the EMTN programme).

Table 1: Capital market activity (including PCI – Primecity)

Jul-17	Issuance of Series I, 2026 straight bonds of €500m, coupon 1.875% p.a., under the EMTN programme.
Jun-17	Issuance of USD 500m perpetual notes, full currency hedge, effective coupon of 2.3% p.a.
May-17	Equity capital increase of €426m at €4.6 per share
Apr-17	Conversion and repurchase of the €450m convertible bond Series B
Mar-17	Issuance of Series H, 2032 straight bonds of USD 400m under the EMTN programme
Mar-17	Establishment of €1.5 billion Euro Medium Term Note (EMTN) programme
Jan-17	Tap issuance of €100m of perpetual notes, coupon 3.75% p.a., to a total aggregate amount of €600m
Jan-17	Tap issuance of €50m of series F, coupon 2.125% p.a., to a total aggregate amount of €550m
Dec-16	Issuance of Series F, 2023 straight bonds of €500m, coupon 2.125% p.a.
Nov-16	Tap issuance of €150m of Series E, 2024 straight bonds, coupon 1.5% p.a., to a total aggregate amount of €650m
Oct-16	Issuance of €500m perpetual notes, coupon 3.75% p.a.
Jul-16	Issuance of Series E, 2024 straight bonds of €500m, coupon of 1.5% p.a.
Apr-16	Issuance of Series D, 2022 straight bonds of €600m, coupon of 1.5% p.a.
Apr-16	Equity capital increase of €267m at €4.1 per share
Dec-15	Issuance of Series C, 2021 convertible bond of €300m, coupon 1.5% p.a., current conversion price: €5.69
Jul-15	Equity capital increase of €320m at €3.2 per share
Apr-15	Issuance of 5-year convertible bond of €450m, coupon 3% p.a., current conversion price: €3.38
Feb-15	PCI tap issuance of €50m on existing convertible bonds
Jan-15	Tap issuance of €39m of Series A bond to a total aggregate amount of €200m
Dec-14	Issuance of Series A, 2021 straight bonds of €161m, coupon of 3% p.a.
Nov-14	PCI issued convertible bonds at principal amount of €100m

Source: First Berlin Equity Research, Aroundtown

Total cost of debt (CoD) has been trimmed down to 1.8% as of Q2/17 compared to 2.0% at the end of last year. This ranks favourably to the 2.1% peer mean (table 2), and management hinted that this could come down further in the coming quarters with 1.5% viewed as an achievable target. As is the case with Grand City Properties, founder and main shareholder, Yakir Gabay, has a strong hand in orchestrating the financing activities with his in-depth capital markets knowledge. In our view, AT's capital market access combined with management's sourcing network has proven to be a robust platform for external growth.

Table 2: Financial profiles of Aroundtown and peers (YTD)

	Alstria	Aroundtown	Demire	DIC Asset	Hamborner	TLG	WCM
LTV	45.0%	36.0%	62.5%	58.4%	37.7%	38.7%	56.2%
CoD	2.00%	1.80%	3.20%	1.70%	2.60%	1.50%	1.90%
Maturity (years)	5.4	6.0	5.3	5.3	6.4	5.9	5.0
Net debt /EBITDA	9.6x	10.7x	16.0x	8.0x	7.1x	7.5x	13.5x
Moody's rating	n.a.	n.a.	Ba2	n.a.	n.a.	n.a.	n.a.
S&P rating	BBB	BBB	BB+	n.a.	n.a.	n.a.	n.a.

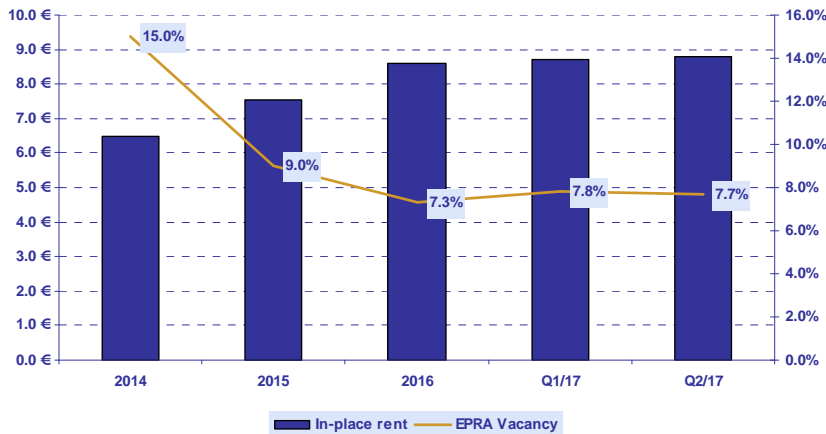
Source: First Berlin Equity Research, Alstria, Aroundtown; Demire, DIC Asset, Hamborner, TLG, WCM

The Loan-to-Value KPI has been consistently compressed and now stands out as the lowest among the top players. S&P acknowledged the improving operational stability and expanding portfolio with an upgrade of its corporate rating to BBB last summer (previously: BBB-).



Operational track record in optimising properties Aroundtown has a growing turnaround track record for increasing in-place rent levels in its portfolio while compressing vacancy rates. With a full year of comparative Y/Y data, the company began reporting quarterly LFL (like-for-like) rent and occupancy growth updates in Q4/16. This will help investors track operational performance going forward. At the end of H1, LFL net rent growth was reported at 6.2%. Excluding assets tagged for disposal, EPRA vacancy for commercial properties stood at 7.7% (Q1/17: 7.8%) and in-place rent was €8.8/m² (Q1/17: €8.7/m²). We attribute such success to fully integrated teams and systems located in the company's core markets throughout Germany / Netherlands (NL). The team is helped by proprietary in-house systems geared towards repositioning and optimising assets. We believe this infrastructure will allow the company to drive revaluations and long term profitability once portfolio expansion cools. Including residential properties, EPRA vacancy and in-place rent stood at 8.0% and €7.8/m² respectively.

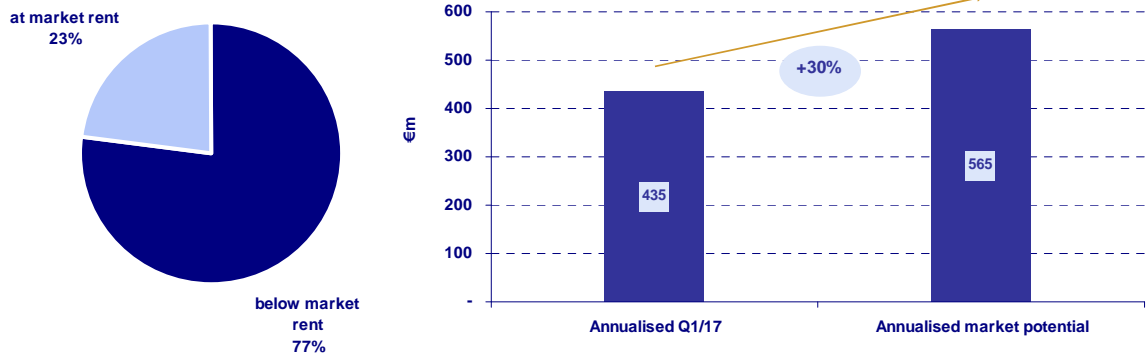
Figure 4: Commercial portfolio EPRA vacancy and in-place rent developments



Source: First Berlin Equity Research, Aroundtown

Because AT targets properties with competitive to below-market rent levels and a view to boost occupancy levels, the lion's share of the existing portfolio is priced below corresponding rent levels. While the company does not disclose specific market rents, it communicates a general upside indication with a five year horizon (figure below). Management believe operational upside tops 30% at present.

Figure 5: In place rent vs market levels; net rent upside potential



Source: First Berlin Equity Research, Aroundtown



German commercial property sector trading at a deep discount to NAV The sector currently trades at a 17% a discount to NAV, a 6.3% FFO I yield, and a 3.6% dividend yield on 2017 street consensus forecasts. The Aroundtown share looks even more attractive at a 22% discount to NAV. Aside from WCM, which is being acquired by TLG, AT is the only player to have delivered double digit portfolio growth YTD. The updated portfolio run rate for October implies investment properties have expanded some 56% to €7.8bn. On our figures, AT's FFO I yield for 2017 and 2018 is comparable with the peer mean. The company also trades at a dividend yield close to the peer averages for 2017 and 2018, although this year's mean is impacted by the absence of a dividend by Demire. Given Aroundtown's superior growth phase, we thus expect the excessive NAV discount to erode at a faster rate.

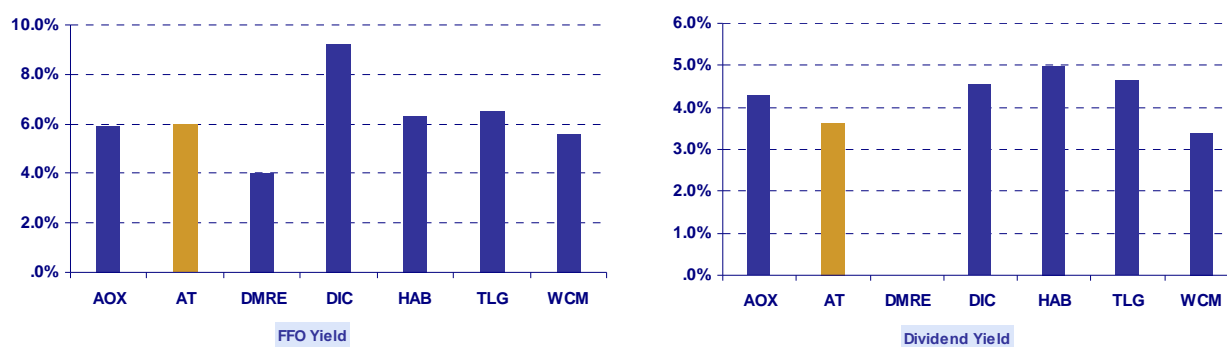
Table 3: German commercial property peer overview

	Market			EPRA NAV (€m)			FFOPS (€)			Dividend (€)		
	Price (€)	cap (€m)	SO (m)	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E
Alstria Office REIT AG	12.36	1,895	153	1,828	1,904	1,994	0.76	0.73	0.76	0.52	0.53	0.55
Demire Real Estate AG	3.75	204	54	312	353	386	0.14	0.15	0.33	0.00	0.00	0.26
DIC Asset AG	9.44	648	69	888	873	879	0.69	0.87	0.89	0.40	0.43	0.45
Hamborner REIT AG	8.85	705	80	768	n.a.	n.a.	0.45	0.56	0.64	0.43	0.44	0.46
TLG Immobilien AG	18.52	1,374	74	1,248	1,604	1,703	1.14	1.21	1.28	0.80	0.86	0.93
WCM Beteiligungs & Grundsitz AG	3.23	433	134	345	440	515	0.14	0.18	0.20	0.10	0.11	0.13
Aroundtown	5.60	4,885	872	3,871	5,238	5,671	0.25	0.34	0.41	0.16	0.20	0.27

	NAVPS (€)			EPRA NAV Premium			FFO yield			Dividend yield		
	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E
Alstria Office REIT AG	11.3	12.4	13.0	9.3%	-0.5%	-5.0%	6.1%	5.9%	6.1%	4.2%	4.3%	4.4%
Demire Real Estate AG	4.6	6.5	7.1	-18.5%	-42.3%	-47.2%	3.7%	4.0%	8.8%	0.0%	0.0%	6.9%
DIC Asset AG	12.8	12.7	12.8	-26.4%	-25.8%	-26.3%	7.3%	9.2%	9.4%	4.2%	4.6%	4.8%
Hamborner REIT AG	9.6	-	-	-8.2%	-	-	5.1%	6.3%	7.2%	4.9%	5.0%	5.2%
TLG Immobilien AG	18.5	21.6	23.0	0.1%	-14.3%	-19.3%	6.2%	6.5%	6.9%	4.3%	4.6%	5.0%
WCM Beteiligungs & Grundsitz AG	2.6	3.3	3.8	25.5%	-1.6%	-16.0%	4.3%	5.6%	6.2%	3.1%	3.4%	4.0%
Mean				-3.0%	-16.9%	-22.8%	5.5%	6.3%	7.4%	3.5%	3.6%	5.1%
Aroundtown (excl hybrid)	4.9	6.0	6.5	14.3%	-6.7%	-13.9%	4.5%	6.0%	7.3%	2.8%	3.6%	4.8%
Aroundtown (incl hybrid)	5.4	7.2	7.7	3.7%	-22.0%	-27.0%	4.5%	6.0%	7.3%	2.8%	3.6%	4.8%

Source: First Berlin Equity Research; Company, Bloomberg

Figure 6: Comparative 2017E FFO and dividend yields (YTD)



Source: First Berlin Equity Research, Company, Bloomberg



Q2 RESULTS CONFIRM COMPANY STRENGTHS

Second quarter results confirm our view that management has the dual ability to source accretive deals and extract value from existing assets. The company reported October 2017 commercial asset value of €7.8bn corresponding to a 56% YTD increase. This is well ahead of commercial peers so far this year. Organic growth potential was underscored by 6.2% LFL growth including 3.5% LFL in-place rent and 2.5% LFL vacancy reduction. The LFL segment split was 9.0% for office, 6.0% for retail and 4.0% for hotel. Recent Q2/17 reporting from Grand City Properties likewise showed steady like-for-like growth of 4.3% (2.0% in-place rent growth and 2.3% occupancy growth).

Table 4: Second quarter results vs forecasts

All figures in EUR '000	Q2/17	Q2/17E	Δ	Q2/16	Δ	H1/17	H1/16	Δ
Rental income	123,000	115,850	6.2%	59,947	105%	237,159	110,016	116%
Adjusted EBITDA commercial	87,718	81,558	7.6%	42,979	104%	168,200	78,988	113%
Margin	71%	70%	-	72%	-	71%	70%	-
Adjusted EBITDA	101,313	93,839	8.0%	60,203	68%	194,500	113,314	71.6%
Adjusted margin	82%	81%	-	100%	-	82%	103%	-
FFO I	70,540	66,440	6.2%	38,096	85%	129,800	70,722	83.5%
FFOPS I (€)	0.09	0.09	6.1%	0.06	46%	0.18	0.11	60.7%

Source: First Berlin Equity Research; Company

Accelerated expansion and organic growth drive top and bottom line results AT reported rental and operating income (RI) of €123m for the second quarter, which topped our estimate (FBe: €116m). The figure more than doubled Y/Y and grew 7.9% Q/Q. The increase can be traced to the larger portfolio and operational improvements in its existing properties through rent and occupancy increases. On a six month basis, RI climbed some 116% Y/Y to €237m, whereas net rental income grew 113% to €204m. Long-term recurring net rental income—adjusted for contributions from properties earmarked for disposal—reached €184m. As of October 2017, the monthly annualised run rate for net rent stood at €435m vs €369m during the first six months of 2017.

Table 5: Adjusted EBITDA calculation

All figures in EUR '000	Q2/17	Q1/16	Delta Δ
EBITDA	991,900	609,700	63%
Capital gains, property revaluations & other income	-747,700	-409,700	-
Profit share from equity accounted investees	-76,700	-121,000	-
Management LT incentive plan	700	-	-
Adjusted EBITDA commercial portfolio	168,200	79,000	113%
Adjustment relating to properties marked for disposal	-17,200	-	-
Adjustment for GCP contribution	43,500	34,500	26%
Adjusted EBITDA	194,500	113,500	71%

Source: First Berlin Equity Research; Company

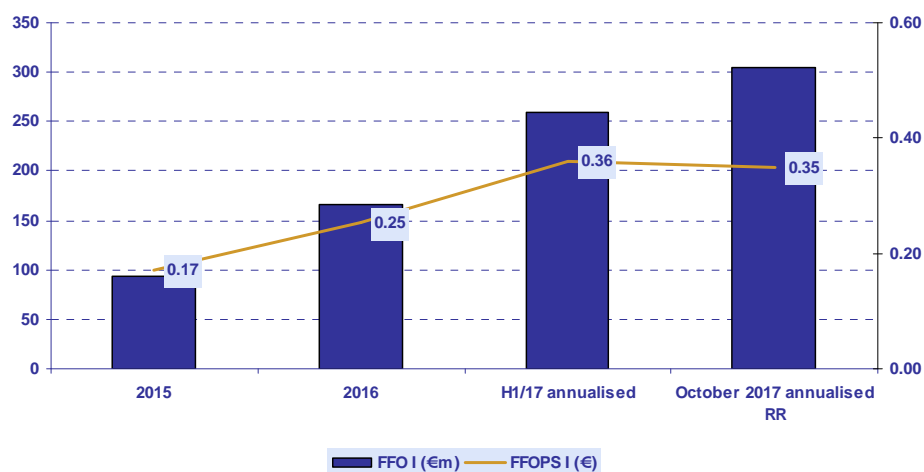
Commercial adjusted EBITDA, which reflects the recurring operational profit by excluding revaluation effects, disposal gains, and provisions for the management incentive plan, surged 104% in Q2/17 to €88m (Q2/16: €43m; FBe: €82m). The increase is traced to external growth realised through accretive acquisitions and the improving occupancy rates and rent levels. Including the 36% GCP stake, adjusted EBITDA climbed 68% Y/Y to €101m. The capital gains, property revaluations and other income line item totalled €535m in the second quarter (Q2/16: €186m) and €748m at the six month mark (H1/16: €410m). The sharp rise underscores the company's ability to extract embedded value through asset optimisation. Net income (NI) grew by 89% for the period to €530m (Q2/16: €280m) fuelled by top line growth, revaluation uplift, and economies of scale. On a six month basis, NI totalled €777m (H1/16: €510m). Diluted EPS amounted b €0.74 (H1/16: €0.46).

**Table 6: Funds from operations I breakdown**

All figures in EUR '000	H1/17	H1/16	Delta Δ
Adjusted EBITDA commercial portfolio	168,200	79,000	113%
Finance expense	-29,800	-18,800	-
Tax	-18,500	-7,900	-
Minority adjustment	-4,400	-2,800	-
FFO I commercial portfolio	115,500	49,500	133%
FFO I tied to properties marked for sale	-12,000	-	-
FFO I adjustment for GCP stake	26,300	21,400	23%
FFO I	129,800	70,900	83%
FFOPS I (€)	0.18	0.11	64%

Source: First Berlin Equity Research; Company

FFO I captures recurring operating profits after deducting financial and current tax expenses from adjusted EBITDA. The KPI rose sharply during Q2 to €71m compared to €38m in the prior year period, thanks to the strong adjusted EBITDA growth and excellent financing conditions owing to the low cost of debt. On a six month basis, FFO I increased 84% Y/Y to €130m equal to €0.18 per share. This resulted in an annualised FFO I yield of 6.7% as of Q2 reporting.

Figure 7: FFO I development

Source: First Berlin Equity Research; Company

**Table 7: Financial highlights**

All figures in EUR '000	Q2/17	FY16	Delta Δ
Cash and liquid assets	324,500	835,813	-61%
Investment property	7,436,500	5,016,235	48%
Investment in equity-accounted investees	1,783,000	1,557,044	15%
Total assets	10,821,100	8,088,952	34%
Net debt	3,601,500	2,737,437	32%
Net debt pro forma*	2,722,656	2,737,437	-1%
Total equity	6,005,800	3,941,080	52%
EPRA NAV	5,137,600	3,870,770	33%
Loan-to-Value (LTV)	35%	39%	-
LTV pro forma*	33%	39%	-

Source: First Berlin Equity Research; Company

Balance sheet metrics solid over six month period AT reported cash and liquid assets of €325m for the period ended 30 June compared to €336m at the end of 2016, while net debt climbed in conjunction with the portfolio expansion at €3.6bn vs €2.7bn at the end of 2016. The debt structure featured an LTV of 35%—400 basis points lower than year end 2016. This is well below the 45% internal limit set by the Management Board. Coverage ratios remained solid with a debt service coverage ratio (DSCR) and an interest coverage ratio (ICR) of 3.8x and 5.7x respectively at the end of Q2. In our view, the current cash position and attractive debt structure, which features a 1.8% cost of debt and a six plus year maturity, positions the company well for execution of its ample pipeline.

Raising forecasts on strong portfolio expansion Aroundtown is in the midst of a high growth phase. Investment volumes YTD have already topped our full year target, which was back loaded towards H2. We have raised our figures to account for the strong momentum and the accelerated impact on rental income and earnings.

Our model now considers €5.1bn in acquisitions from Q1 2017E until 2020E. We also expect AT to continue to deliver strong operating performance to match the high investment levels. We thus move our rental income target higher to €480m in 2017 and €624m next year. The company continues to have a full pipeline and is using a pan-European lens to assess deals in major hubs that fit its investment criteria. We estimate FFOPS I growth of 32% Y/Y and 33% NAVPS (including perpetual notes) growth in 2017.

Table 8: Changes to our forecasts

All figures in EUR '000	2017E			2018E		
	Old	New	% change	Old	New	% change
Rental income	421,364	479,550	13.8%	484,857	623,960	28.7%
Adjusted EBITDA (commercial) ¹	296,531	320,713	8.2%	342,087	422,575	23.5%
margin	70.4%	66.9%	-	70.6%	67.7%	-
FFO I	242,078	273,056	12.8%	293,228	358,700	22.3%
FFOPS I €	0.31	0.35	12.8%	0.33	0.40	22.3%

¹ adjusted for property disposals to reflect recurring

Source: First Berlin Equity Research



COMPANY PROFILE

Founded in 2004, Aroundtown specialises in purchasing, re-developing, optimizing and re-positioning value-add income generating properties primarily in the German / NL real estate markets. The company targets commercial and residential properties that benefit from strong fundamentals and growth prospects. Operations are built around an experienced team of experts supported by high end proprietary IT-systems and infrastructure allowing the company to consistently improve portfolio operating metrics resulting in stable and strong cash flows generating characterised by internal and external growth.

Aroundtown floated its shares in 2015 on the Marché Libre. Prior to listing, the company issued straight and convertible bonds with a total volume of €650m. AT uplisted its shares to the Prime Standard of the Frankfurt Stock Exchange, and we believe the company will soon be eligible for inclusion in Germany's MDAX index.

Yakir Gabay is the major shareholder via the 44% Avisco Group stake. AT expects to complete relocation of its corporate headquarters to Luxembourg in September. The company currently ranks as the largest listed German commercial real estate company with commercial assets now topping €7.8bn including the largest hotel portfolio among its peers with a value north of €1.3bn. Aroundtown also owns a 36% stake in the residential property specialist Grand City Properties.

Table 9: Commercial portfolio breakdown by asset type as of June reporting

	Investment properties (€m)	Rentable area ('000 m ²)	EPRA vacancy	Annualised net rent (€m)	In-place rent (€/m ²)	Value (€/m ²)	Rental yield
Office	4,451	1,935	10.0%	237	10.8	2,300	5.3%
Hotel	1,347	632	2.2%	72	10.3	2,132	5.4%
Retail	756	424	10.4%	51	10.5	1,783	6.8%
Logistics/Wholesale	883	1,023	4.7%	51	4.3	863	5.8%
Total	7,437	4,014	8.1%	411	9.0	1,853	5.5%
October Total	7,800	4,300	8.8%	435	8.9	1,814	5.6%

Source: First Berlin Equity Research; Company



EPRA NAV VALUATION

Our updated discounted EPRA NAV valuation model yields a new price target of €7.20 (previously: €6.40). This corresponds to a total return of 32.2% including the dividend yield. The uplisting to the Prime Standard of Frankfurt in June should be appreciated by investors and pave the way for index inclusion on the German MDAX index once the company de-lists its shares from the Marché Libre. Risks to our price target include a shift in favourable macro economic tailwinds currently driving the economy and good supply / demand dynamics, and the absence of single asset transparency generally appreciated by investors for detailed portfolio assessment.

in €'000	2017E	2018E	2019E
Shareholders' equity	5,716,526	6,096,267	6,489,979
Total equity	6,308,241	6,827,288	7,377,717
NAV per share	7.23	7.83	8.46
Net deferred taxes	536,177	589,228	645,703
Derivative financial instruments	7,241	7,603	7,983
Convertible bond	-	-	-
EPRA NAV (inc hybrid notes)	6,259,944	6,693,098	7,143,665
EPRA NAV per share	7.18	7.67	8.19
FFO	273,056	358,700	408,050
Revaluation results	896,025	294,730	332,206
New Equity	420,140	-	-
Total return	1,589,221	653,430	740,256

EPRA NAV	6,259,944	6,693,098	7,143,665
Return on NAV	37%	10%	11%
Cost of equity	6.0%	6.0%	6.0%
Spread (percentage points)	31%	4%	5%

	2017E	2018E	2019E
WACC	4.2%	4.2%	4.2%
Value creation	1,913,028	298,263	362,755
NPV	1,887,319	282,391	329,603
Dividends paid	107,658	177,487	233,155
Present value of dividends paid	106,211	168,042	211,848

Fair value calculation	
PV of total value created	2,499,313
EPRA NAV (2016)	3,568,440
Adjustments	-
Equity value	6,067,753
PV of dividends	717,377
Fair value	6,785,130
Number of shares (000's, fully diluted)	944,920
Fair value per share €	7.20

Valuation metrics	2017E	2018E	2019E
Price target (€)	7.20	7.20	7.20
Share price (€)	5.60	5.60	5.60
Return potential	28.6%	28.6%	28.6%
Dividend yield	3.6%	4.8%	5.4%
Total return potential	32.2%	33.3%	34.0%
NAV discount / premium (share price)	-22.0%	-27.0%	-31.6%
FFOPS I yield	6.0%	7.3%	8.4%



INCOME STATEMENT

All figures in EUR '000	2015	2016	2017E	2018E	2019E
Revenue	125,162	273,699	479,550	623,960	720,707
Capital gains, property revaluations & other	814,511	719,517	896,025	294,730	332,206
Result from equity-accounted investees	134,138	197,064	146,220	153,530	163,092
Property OpEx	-28,529	-75,353	-132,835	-172,837	-200,357
Administration & other OpEx	-4,287	-7,921	-14,386	-17,471	-19,459
Operating income (EBIT)	1,040,995	1,107,006	1,374,573	881,912	996,190
Net financial result	-20,466	-47,408	-67,894	-80,298	-96,652
Other financial expenses	7,869	-35,883	0	0	0
Pre-tax income (EBT)	1,028,398	1,023,715	1,306,679	801,614	899,538
Tax expense	-9,264	-19,910	-41,062	-52,028	-59,479
Deferred tax	-98,380	-102,711	-170,245	-53,051	-56,475
Tax result	-107,644	-122,621	-211,307	-105,079	-115,954
Comprehensive net income	920,754	901,094	1,095,372	696,535	783,584
Minority interests	233,862	169,186	219,074	139,307	156,717
Hybrid note investors	0	3,699	32,861	33,434	34,086
Net income to owners	686,892	728,209	843,437	523,794	592,781
Basic EPS (in €)	1.26	1.11	1.04	0.60	0.68
Diluted EPS (in €)	1.01	0.87	0.92	0.55	0.63
Adjusted EBITDA commercial	92,723	194,541	320,713	422,575	490,052
Ratios					
Adjusted EBITDA commercial margin	74.1%	71.1%	66.9%	67.7%	68.0%
Tax rate	6.0%	7.4%	10.0%	10.0%	10.0%
Expenses as % of revenues					
Property OpEx	22.8%	27.5%	27.7%	27.7%	27.8%
Administration & other OpEx	3.4%	2.9%	3.0%	2.8%	2.7%
Y/Y Growth					
Revenues	-51.3%	118.7%	75.2%	30.1%	15.5%
Operating income	2.9%	6.3%	24.2%	-35.8%	13.0%
Adjusted EBITDA	-30.7%	109.8%	64.9%	31.8%	16.0%
Net income/ loss	-3.9%	6.0%	15.8%	-37.9%	13.2%
Funds from Operations (FFO)					
Adjusted EBITDA commercial portfolio	92,723	194,541	320,713	422,575	490,052
Finance expense	-20,466	-47,408	-67,894	-80,298	-96,652
Tax expense	-9,264	-19,910	-41,062	-52,028	-59,479
Minority adjustment	-7,900	-7,458	-1,709	-1,821	-1,937
FFO I commercial portfolio	55,093	119,765	210,048	288,429	331,984
Adjustment for GCP contribution	38,956	45,862	63,008	70,272	76,066
FFO I	94,049	165,627	273,056	358,700	408,050



BALANCE SHEET

All figures in EUR '000	2015	2016	2017E	2018E	2019E
Assets					
Current assets, total	432,545	1,100,047	1,011,682	969,291	992,479
Cash and cash equivalents	121,243	641,400	265,453	227,901	224,226
Short-term investments	261,527	180,810	59,667	14,917	14,917
Receivables	45,562	111,293	131,384	170,948	197,454
Other current assets	4,213	11,225	11,562	11,909	12,266
Assets held for sale	0	155,319	543,617	543,617	543,617
Non-current assets, total	4,007,602	6,988,905	10,225,810	11,826,415	13,349,345
Property, plant & equipment	5,123	22,799	23,255	23,720	24,194
Investment properties	2,430,595	5,016,235	8,132,716	9,546,149	10,873,893
Equity accounted investees	1,183,148	1,557,044	1,703,264	1,856,794	2,019,887
Other LT assets	388,736	392,827	366,575	399,752	431,371
Total assets	4,440,147	8,088,952	11,237,492	12,795,706	14,341,824
Shareholders' equity & debt					
Current liabilities, total	241,278	348,839	486,819	583,631	662,447
Short-term debt	129,426	159,965	142,546	178,070	212,436
Accounts payable	95,971	107,721	181,966	236,763	274,461
Provisions & other current liabilities	15,881	81,153	162,306	168,798	175,550
Long-term liabilities, total	1,773,357	3,799,033	4,442,433	5,384,786	6,301,660
Long-term debt	1,521,557	3,384,658	3,856,637	4,744,730	5,603,884
Deferred tax liabilities	185,774	365,932	536,177	589,228	645,703
Other LT liabilities	66,026	48,443	49,619	50,828	52,073
Minority interests	320,103	372,640	591,714	731,021	887,738
Shareholders' equity	2,105,409	3,568,440	5,716,526	6,096,267	6,489,979
Total consolidated equity and debt	4,440,147	8,088,952	11,237,492	12,795,706	14,341,824
Ratios					
Current ratio (x)	1.79	3.15	2.08	1.66	1.50
Equity ratio	54.6%	48.7%	56.1%	53.4%	51.4%
Financial leverage	60.0%	76.7%	64.1%	76.6%	85.7%
EPRA NAV	2,720,687	3,870,770	5,238,067	5,671,221	6,121,788
EPRA NAVPS (€)	3.70	5.40	7.18	7.67	8.19
Net debt	1,264,000	2,737,437	3,662,502	4,668,074	5,564,911
Return on equity (ROE)	43.7%	25.3%	19.2%	11.4%	12.1%
Loan-to-value (LTV)	34.5%	39.3%	34.7%	38.5%	40.8%
LTV without convertible bond	19.0%	34.0%	32.0%	36.0%	38.6%



CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017E	2018E	2019E
Net income	920,754	901,094	1,095,372	696,535	783,584
Depreciation & amortisation	377	2,006	959	1,248	1,441
Capital gains, property revaluations & other	-814,511	-719,517	-896,025	-294,730	-332,206
Profit share from equity accounted investees	-134,138	-197,064	-146,220	-153,530	-163,092
Shared based payment in a subsidiary	0	2,110	0	0	0
Net finance expenses	12,597	83,291	67,894	80,298	96,652
Tax result	107,644	122,621	211,307	105,079	115,954
Operating cash flow	92,723	194,541	333,287	434,900	502,333
Changes in working capital	-3,842	-17,277	134,679	-13,383	-15,720
Provisions for other liabilities	6,355	-871	80,899	6,179	6,374
Dividend received	7,445	17,948	0	0	0
Tax paid	-8,376	-15,537	-41,062	-52,028	-59,479
Net operating cash flow	94,305	178,804	507,802	375,667	433,508
CapEx/ intangibles	-957	-6,653	-1,415	-1,713	-1,916
Disposal/ investment in investment properties, net	-776,436	-1,050,803	-2,220,456	-1,118,704	-995,538
Acquisition/disposals of subsidiaries	-386,297	-994,129	-388,298	0	0
Proceeds from investments in financial assets	-255,035	151,306	67,964	41,366	-3,441
Cash flow from investing	-1,418,725	-1,900,279	-2,542,205	-1,079,051	-1,000,895
Debt financing, net	1,230,276	1,786,100	870,267	923,616	893,520
Equity financing, net	319,731	740,942	963,740	0	0
Dividends paid	0	-34,490	-107,658	-177,487	-233,155
Other financing activities	-112,578	-203,936	0	0	0
Net paid financing expenses	-19,760	-44,606	-67,894	-80,298	-96,652
Cash flow from financing	1,417,669	2,244,010	1,658,455	665,832	563,712
Net cash flows	93,249	522,535	-375,947	-37,552	-3,675
Assets held for sale - cash	0	-2378	0	0	0
Cash, start of the year	27,994	121,243	641,400	265,453	227,901
Cash, end of the year	121,243	641,400	265,453	227,901	224,226
Adjusted EBITDA commercial/share (€)	0.17	0.30	0.39	0.48	0.56
FFO I	94,049	165,627	273,056	358,700	408,050
FFOPS I (€)	0.17	0.25	0.34	0.41	0.47
Y/Y Growth					
EBITDA/share	42.0%	75.7%	32.2%	23.0%	16.0%
FFO I	142.7%	76.1%	64.9%	31.4%	13.8%
FFOPS I	114.9%	47.5%	32.2%	22.6%	13.8%

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Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 September 2015	€3.40	Buy	€5.70
2...9	↓	↓	↓	↓
10	10 May 2017	€4.72	Buy	€6.40
11	9 June 2017	€4.62	Buy	€6.40
12	15 June 2017	€4.68	Buy	€6.40
13	Today	€5.60	Buy	€7.20

Authored by: Ellis Acklin, Analyst

Company responsible for preparation:

First Berlin Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 83 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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