

# Aroundtown SA

Germany / Real Estate  
 Frankfurt Stock Exchange  
 Bloomberg: AT1 GR  
 ISIN: LU1673108939

Update

## RATING

## PRICE TARGET

Return Potential  
 Risk Rating

## BUY

€ 7.60

25.8%  
 Medium

## OPERATIONAL UPDATE CONFIRMS GROWTH TRAJECTORY

Aroundtown (AT) published an operational update confirming the current growth phase. As of November 2017, the commercial portfolio tops €8.2bn, which is ahead of our target for this year. The company has now grown its commercial portfolio some 64% YTD. AT has also boosted its financial firepower with a mixture of debt and equity issuances for aggregate funds of €1.5bn. The recent momentum confirms our view that Aroundtown is in the middle of a strong growth phase and well positioned to deliver further growth and profitability. We have raised our forecasts to reflect the higher than expected growth. A full pipeline and ample financial resources support our forecasts. Our updated valuation model yields a price target of €7.60 (previously €7.20). Our rating remains Buy

**Portfolio strengthened with recent expansion** Since June reporting, the company has grown commercial properties by €700m, including €400m since the October operational update. The November portfolio increased by some 200,000 m<sup>2</sup> and has a 10% vacancy rate with in-place rent of €11/m<sup>2</sup>. The new properties are primarily offices well located across strategic hubs, such as Berlin, Cologne, Dusseldorf, Dortmund, Leipzig and Amsterdam. As of June, the €4.5bn in office assets corresponded to 60% of the commercial portfolio. We appreciate the high office exposure versus peers and expect this ratio to have been maintained with the new additions. We believe the office segment features favourable supply / demand and rental growth ratios versus other commercial segments such as retail.

**Ample liquidity for further external growth** AT has added some €1.5bn in new liquidity over the past month through a variety of issuances. On 27 September, AT tapped up its \$500m perpetual note by \$200m increasing the overall volume to \$700m. This was followed by a £500m (€550m) straight bond on 11 October as part of its €1.5bn Euro Medium Term Note Programme (the EMTN programme). The bond has a 1.5% fixed rate and is due in 2029. (p.t.o.)

## FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Rental income (€m)	257.17	125.16	273.70	489.36	644.77	745.10
Y/Y growth	42.1%	-51.3%	118.7%	78.8%	31.8%	15.6%
Adj. EBITDA (€m)	59.67	92.72	194.54	327.53	437.08	507.05
Net income (€m)	898.5	920.8	901.1	1120.5	715.8	805.8
EPS (diluted) (€)	1.41	1.01	0.88	0.91	0.53	0.60
EPRA NAV <sup>1</sup> (€m)	1273.27	2720.69	4349.05	7101.71	7548.49	8011.38
DPS (€)	0.00	0.05	0.16	0.19	0.25	0.29
FFO I (€m)	38.75	94.05	165.63	278.44	369.97	421.02
FFOPS I (€)	0.08	0.17	0.25	0.33	0.39	0.44
Liquid assets (€m)	175.75	386.98	833.44	701.08	615.57	608.80

\* Note that GCP was deconsolidated at the end of 2014. <sup>1</sup> 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 SA is a specialist real estate company focused on investing in and managing value-add properties primarily located in the German/NL real estate markets.

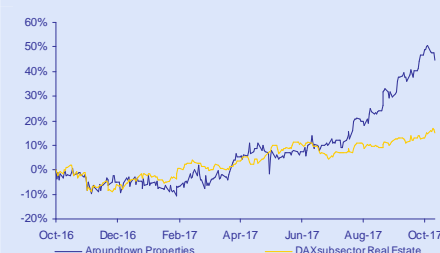
## MARKET DATA

As of 20 Oct 2017

Closing Price	€ 6.04
Shares outstanding	872.31m
Market Capitalisation	€ 5268.75m
52-week Range	€ 3.97 / 6.49
Avg. Volume (12 Months)	765,271

Multiples	2016	2017E	2018E
P/FFO I	23.8	18.5	15.5
P/EPRA NAV	1.2	1.0	0.9
FFO I/Yield	4.2%	5.4%	6.5%
Div. Yield	2.6%	3.2%	4.2%

## STOCK OVERVIEW



## COMPANY DATA

As of 30 Jun 2017

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

<sup>1</sup> includes perpetual notes

## SHAREHOLDERS

Avisco Group	43.7%
Free Float	56.3%



On 20 October, the financing measures were wrapped up with an equity issuance of 75m new shares at €6.00 for €450m in gross proceeds. As a result, AT's share count increases to 947m.

**Raising forecasts to reflect momentum** The FFO I run rate now stands at €320m compared to €260m at the end of H1/17. The November FFOPS I of €0.37 equates to an FFO I yield of 6.1%. We have bumped up our forecasts to reflect the higher than expected growth and our ongoing assumption that the company will continue to realise both external and organic growth with its sizable portfolio. The decrease in FFOPS I stems from the dilution from the cap hike.

**Figure 1: Changes to forecasts**

All figures in EUR '000	2017E			2018E		
	Old	New	% change	Old	New	% change
Rental income	479,550	489,360	2.0%	623,960	644,773	3.3%
Adjusted EBITDA (commercial) <sup>1</sup>	320,713	327,532	2.1%	422,575	437,082	3.4%
margin	66.9%	66.9%	-	67.7%	67.8%	-
FFO I	273,056	278,437	2.0%	358,700	369,971	3.1%
FFOPS I (€)	0.34	0.33	-2.9%	0.41	0.39	-4.9%

<sup>1</sup> adjusted for property disposals to reflect recurring

Source: First Berlin Equity Research



## VALUATION MODEL

We have adjusted our model to account for the higher than expected external growth, the new equity, and our raised forecasts. The combined factors result in a new fair value of €7.60 / share (previously: €7.20 / share).

in €'000	2017E	2018E	2019E
Shareholders' equity	6,260,662	6,652,283	7,056,416
Total equity	6,857,410	7,392,183	7,957,469
NAV per share	7.24	7.80	8.40
Net deferred taxes	540,823	595,629	654,001
Derivative financial instruments	7,241	7,603	7,983
Convertible bond	292,980	292,980	292,980
EPRA NAV (inc hybrid notes)	7,101,705	7,548,495	8,011,381
<b>EPRA NAV per share</b>	<b>7.50</b>	<b>7.97</b>	<b>8.46</b>
FFO	278,437	369,971	421,019
Revaluation results	920,479	304,478	343,367
New Equity	870,140	-	-
<b>Total return</b>	<b>2,069,057</b>	<b>674,449</b>	<b>764,386</b>

Return on NAV	47.6%	9.5%	10.1%
Cost of equity	6.0%	6.0%	6.0%
<b>Spread (percentage points)</b>	<b>41.6%</b>	<b>3.5%</b>	<b>4.1%</b>

	2017E	2018E	2019E
WACC	4.2%	4.2%	4.2%
Value creation	2,953,808	265,329	332,019
NPV	2,931,248	252,687	303,450
Dividends paid	107,658	180,984	240,481
Present value of dividends paid	106,835	172,361	219,789

Fair value calculation	
PV of total value created	3,487,385
EPRA NAV (2016)	3,568,440
Adjustments	-
Equity value	7,055,825
PV of dividends	739,016
<b>Fair value</b>	<b>7,794,841</b>
Number of shares (000's, fully diluted)	1,019,920
<b>Fair value per share €</b>	<b>7.60</b>

Valuation metrics	2017E	2018E	2019E
Price target (€)	7.60	7.60	7.60
Share price (€)	6.04	6.04	6.04
Return potential	25.8%	25.8%	25.8%
Dividend yield	3.2%	4.2%	4.8%
<b>Total return potential</b>	<b>29.0%</b>	<b>30.0%</b>	<b>30.6%</b>
NAV discount / premium (share price)	-19.4%	-24.2%	-28.6%
FFOPS I yield	5.4%	6.5%	7.4%



## INCOME STATEMENT

All figures in EUR '000	2015	2016	2017E	2018E	2019E
<b>Revenue</b>	<b>125,162</b>	<b>273,699</b>	<b>489,360</b>	<b>644,773</b>	<b>745,098</b>
Capital gains, property revaluations & other	814,511	719,517	920,479	304,478	343,367
Result from equity-accounted investees	134,138	197,064	146,220	153,530	163,092
Property OpEx	-28,529	-75,353	-135,553	-178,602	-207,137
Administration & other OpEx	-4,287	-7,921	-14,681	-18,054	-20,118
<b>Operating income (EBIT)</b>	<b>1,040,995</b>	<b>1,107,006</b>	<b>1,405,826</b>	<b>906,125</b>	<b>1,024,302</b>
Net financial result	-20,466	-47,408	-68,650	-82,083	-98,983
Other financial expenses	7,869	-35,883	0	0	0
<b>Pre-tax income (EBT)</b>	<b>1,028,398</b>	<b>1,023,715</b>	<b>1,337,177</b>	<b>824,042</b>	<b>925,319</b>
Tax expense	-9,264	-19,910	-41,744	-53,479	-61,179
Deferred tax	-98,380	-102,711	-174,891	-54,806	-58,372
<b>Tax result</b>	<b>-107,644</b>	<b>-122,621</b>	<b>-216,635</b>	<b>-108,285</b>	<b>-119,551</b>
<b>Comprehensive net income</b>	<b>920,754</b>	<b>901,094</b>	<b>1,120,541</b>	<b>715,757</b>	<b>805,768</b>
Minority interests	233,862	169,186	224,108	143,151	161,154
Hybrid note investors	0	3,699	28,500	32,500	32,500
<b>Net income to owners</b>	<b>686,892</b>	<b>728,209</b>	<b>867,933</b>	<b>540,106</b>	<b>612,114</b>
Basic EPS (in €)	1.26	1.11	1.02	0.57	0.65
Diluted EPS (in €)	1.01	0.87	0.91	0.53	0.60
<b>Adjusted EBITDA commercial</b>	<b>92,723</b>	<b>194,541</b>	<b>327,532</b>	<b>437,082</b>	<b>507,052</b>
<b>Ratios</b>					
Adjusted EBITDA commercial margin	74.1%	71.1%	66.9%	67.8%	68.1%
Tax rate	6.0%	7.4%	10.0%	10.0%	10.0%
<b>Expenses as % of revenues</b>					
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%
<b>Y/Y Growth</b>					
Revenues	-51.3%	118.7%	78.8%	31.8%	15.6%
Operating income	2.9%	6.3%	27.0%	-35.5%	13.0%
Adjusted EBITDA	-30.7%	109.8%	68.4%	33.4%	16.0%
Net income/ loss	-3.9%	6.0%	19.2%	-37.8%	13.3%
<b>Funds from Operations (FFO)</b>					
<b>Adjusted EBITDA commercial portfolio</b>	<b>92,723</b>	<b>194,541</b>	<b>327,532</b>	<b>437,082</b>	<b>507,052</b>
Finance expense	-20,466	-47,408	-68,650	-82,083	-98,983
Tax expense	-9,264	-19,910	-41,744	-53,479	-61,179
Minority adjustment	-7,900	-7,458	-1,709	-1,821	-1,937
<b>FFO I commercial portfolio</b>	<b>55,093</b>	<b>119,765</b>	<b>215,429</b>	<b>299,699</b>	<b>344,953</b>
Adjustment for GCP contribution	38,956	45,862	63,008	70,272	76,066
<b>FFO I</b>	<b>94,049</b>	<b>165,627</b>	<b>278,437</b>	<b>369,971</b>	<b>421,019</b>



## BALANCE SHEET

All figures in EUR '000	2015	2016	2017E	2018E	2019E
<b>Assets</b>					
<b>Current assets, total</b>	<b>432,545</b>	<b>1,100,047</b>	<b>1,378,771</b>	<b>1,335,838</b>	<b>1,356,552</b>
Cash and cash equivalents	121,243	641,400	629,854	588,746	581,617
Short-term investments	261,527	180,810	59,667	14,917	14,917
Receivables	45,562	111,293	134,071	176,650	204,136
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
<b>Non-current assets, total</b>	<b>4,007,602</b>	<b>6,988,905</b>	<b>10,500,186</b>	<b>12,153,537</b>	<b>13,727,105</b>
Property, plant & equipment	5,123	22,799	23,255	23,720	24,194
Investment properties	2,430,595	5,016,235	8,401,712	9,866,857	11,244,246
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	371,955	406,166	438,778
<b>Total assets</b>	<b>4,440,147</b>	<b>8,088,952</b>	<b>11,878,957</b>	<b>13,489,375</b>	<b>15,083,657</b>
<b>Shareholders' equity &amp; debt</b>					
<b>Current liabilities, total</b>	<b>241,278</b>	<b>348,839</b>	<b>493,769</b>	<b>595,932</b>	<b>677,293</b>
Short-term debt	129,426	159,965	145,774	182,473	217,994
Accounts payable	95,971	107,721	185,689	244,660	283,750
Provisions & other current liabilities	15,881	81,153	162,306	168,798	175,550
<b>Long-term liabilities, total</b>	<b>1,773,357</b>	<b>3,799,033</b>	<b>4,527,778</b>	<b>5,501,260</b>	<b>6,448,895</b>
Long-term debt	1,521,557	3,384,658	3,937,336	4,854,803	5,742,820
Deferred tax liabilities	185,774	365,932	540,823	595,629	654,001
Other LT liabilities	66,026	48,443	49,619	50,828	52,073
Minority interests	320,103	372,640	596,748	739,900	901,053
<b>Shareholders' equity</b>	<b>2,105,409</b>	<b>3,568,440</b>	<b>6,260,662</b>	<b>6,652,283</b>	<b>7,056,416</b>
<b>Total consolidated equity and debt</b>	<b>4,440,147</b>	<b>8,088,952</b>	<b>11,878,957</b>	<b>13,489,375</b>	<b>15,083,657</b>
<b>Ratios</b>					
Current ratio (x)	1.79	3.15	2.79	2.24	2.00
Equity ratio	54.6%	48.7%	57.7%	54.8%	52.8%
Financial leverage	60.0%	76.7%	54.0%	66.5%	75.8%
EPRA NAV	2,720,687	3,870,770	6,005,828	6,452,618	6,915,504
EPRA NAVPS (€)	3.70	5.40	7.50	7.97	8.46
Net debt	1,264,000	2,737,437	3,382,027	4,421,705	5,352,014
Return on equity (ROE)	43.7%	25.3%	17.9%	10.8%	11.4%
Loan-to-value (LTV)	34.5%	39.3%	31.3%	35.5%	38.1%
LTV without convertible bond	19.0%	34.0%	28.6%	33.1%	36.1%



## CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017E	2018E	2019E
<b>Net income</b>	<b>920,754</b>	<b>901,094</b>	<b>1,120,541</b>	<b>715,757</b>	<b>805,768</b>
Depreciation & amortisation	377	2,006	979	1,290	1,490
Capital gains, property revaluations & other	-814,511	-719,517	-920,479	-304,478	-343,367
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	68,650	82,083	98,983
Tax result	107,644	122,621	216,635	108,285	119,551
<b>Operating cash flow</b>	<b>92,723</b>	<b>194,541</b>	<b>340,105</b>	<b>449,407</b>	<b>519,333</b>
Changes in working capital	-3,842	-17,277	130,333	-13,257	-16,302
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	-41,744	-53,479	-61,179
<b>Net operating cash flow</b>	<b>94,305</b>	<b>178,804</b>	<b>509,594</b>	<b>388,850</b>	<b>448,226</b>
CapEx/ intangibles	-957	-6,653	-1,435	-1,755	-1,965
Disposal/ investment in investment properties, net	-776,436	-1,050,803	-2,464,997	-1,160,667	-1,034,023
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
<b>Cash flow from investing</b>	<b>-1,418,725</b>	<b>-1,900,279</b>	<b>-2,786,766</b>	<b>-1,121,056</b>	<b>-1,039,429</b>
Debt financing, net	1,230,276	1,786,100	954,193	954,166	923,538
Equity financing, net	319,731	740,942	1,487,740	0	0
Dividends paid	0	-34,490	-107,658	-180,984	-240,481
Other financing activities	-112,578	-203,936	0	0	0
Net paid financing expenses	-19,760	-44,606	-68,650	-82,083	-98,983
<b>Cash flow from financing</b>	<b>1,417,669</b>	<b>2,244,010</b>	<b>2,265,626</b>	<b>691,098</b>	<b>584,074</b>
<b>Net cash flows</b>	<b>93,249</b>	<b>522,535</b>	<b>-11,546</b>	<b>-41,108</b>	<b>-7,129</b>
Assets held for sale - cash	0	-2378	0	0	0
Cash, start of the year	27,994	121,243	641,400	629,854	588,746
<b>Cash, end of the year</b>	<b>121,243</b>	<b>641,400</b>	<b>629,854</b>	<b>588,746</b>	<b>581,617</b>
Adjusted EBITDA commercial/share (€)	0.17	0.30	0.38	0.46	0.54
FFO I	94,049	165,627	278,437	369,971	421,019
FFOPS I (€)	0.17	0.25	0.33	0.39	0.44
<b>Y/Y Growth</b>					
EBITDA/share	42.0%	75.7%	29.1%	20.0%	16.0%
FFO I	142.7%	76.1%	68.1%	32.9%	13.8%
FFOPS I	114.9%	47.5%	28.9%	19.5%	13.8%

**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 September 2015	€3.40	Buy	€5.70
2...11	↓	↓	↓	↓
12	15 June 2017	€4.68	Buy	€6.40
13	1 September 2017	€5.60	Buy	€7.20
14	7 September 2017	€5.63	Buy	€7.20
15	Today	€6.04	Buy	€7.60

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**INFORMATION PURSUANT TO SECTION 34B OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO THE GERMAN ORDINANCE ON THE ANALYSIS OF FINANCIAL INSTRUMENTS [FINANV]**

First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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**PRICE TARGET DATES**

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

**AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY**

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

## ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

### ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

**STRONG BUY:** An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

**BUY:** An expected favourable price trend of more than 25% percent.

**ADD:** An expected favourable price trend of between 0% and 25%.

**REDUCE:** An expected negative price trend of between 0% and -15%.

**SELL:** An expected negative price trend of more than -15%.

### RISK ASSESSMENT

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