

Aroundtown SA

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

Operational
 update

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 8.20
 26.1%
 Medium

LATEST RUN RATES CONFIRM GROWTH PHASE

Aroundtown (AT) has published an operational update confirming the current growth phase. According to the new run rates for February, the value of the investment property portfolio has grown +5.7% to €9.3bn. This compares to €8.8bn reported for December. In-place rent for commercial properties is now €9.0/sqm with an EPRA vacancy of 9.4%. The February net rent run rate for the commercial portfolio now stands at €512m (December €485m) with adjusted EBITDA at €422m. FFOPS I edged higher to €0.37 (December €0.36) corresponding to a 5.7% yield. The new operational figures are ahead of our targets for Q1/18. We have adjusted our 2018 targets to reflect the stronger than anticipated figures resulting in a price target of €8.20 (old: €8.10). We stick to our Buy rating.

Operating and corporate achievements define excellent year The latest run rates cap off an excellent year highlighted by strong growth and operating performance. Aroundtown ranked as the top German real estate buyer with over €3bn in transactions last year. This translated into strong FFOPS I growth of 44% at the nine month point. NAVPS likewise climbed 27% during this time frame. The company also achieved several important corporate goals with the listing upgrade into the Prime Standard and the migration of its headquarters to Luxemburg. AT's improved reporting standards were recognised with a Gold Award reflecting their compliance with EPRA Best Practices Recommendations. In December, Standard and Poor's (S&P) boosted Aroundtown's long-term corporate credit rating from 'BBB' to 'BBB+' with a stable outlook citing the growth of the portfolio and the company's ability to grow recurring cash flows. S&P also highlighted the strong like-for-like (LFL) rental income growth and vacancy rate below 10%. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Rental income (€m)	257.17	125.16	273.70	492.83	682.77	824.80
Y/Y growth	42.1%	-51.3%	118.7%	80.1%	38.5%	20.8%
Adj. EBITDA (€m)	59.67	92.72	194.54	329.94	463.57	562.60
Net income (€m)	898.5	920.8	901.1	1300.4	808.2	886.3
EPS (diluted) (€)	1.41	1.01	0.88	1.06	0.60	0.66
EPRA NAV ¹ (€m)	1273.27	2720.69	4349.05	7277.71	7828.71	8368.76
DPS (€)	0.00	0.05	0.16	0.18	0.25	0.30
FFO I (€m)	38.75	94.05	165.63	261.32	366.62	439.17
FFOPS I (€)	0.08	0.17	0.25	0.31	0.39	0.46
Liquid assets (€m)	175.75	386.98	833.44	674.36	623.26	659.99

* 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 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 04 Jan 2018

Closing Price	€ 6.50
Shares outstanding	947.88m
Market Capitalisation	€ 6164.06m
52-week Range	€ 3.87 / 6.63
Avg. Volume (12 Months)	331,442

Multiples	2016	2017E	2018E
P/FFO I	25.6	21.2	16.8
P/EPRA NAV	1.3	1.0	0.9
FFO I/Yield	3.9%	4.7%	6.0%
Div. Yield	2.4%	2.8%	3.9%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2017

Liquid Assets	€ 501.80m
Current Assets	€ 1,238.10m
EPRA NAV ¹	€ 6,945.70m
Total Assets	€ 12,093.40m
Current Liabilities	€ 566.20m
Total Equity	€ 6471.20m

¹ includes perpetual notes

SHAREHOLDERS

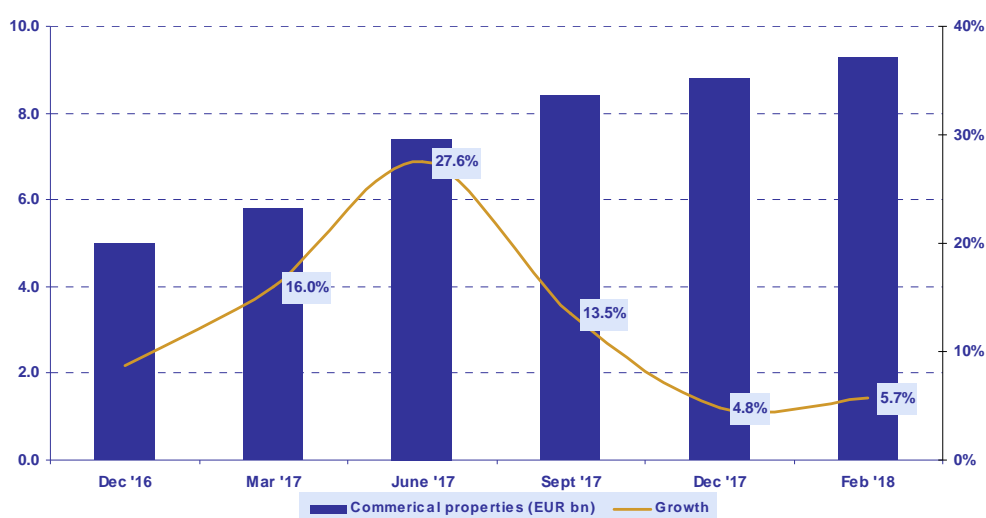
Avisco Group	40.3%
Free Float	59.7%



The well diversified portfolio now includes a solid foothold in the Netherlands including Amsterdam, Rotterdam, and Utrecht, which accounted for 8.0% of commercial assets as of September reporting. AT now boasts the highest credit rating in the German commercial real estate space. Looking ahead, management hinted on the Q3 conference call at a pipeline of over €1.0bn. Combined with ample financial firepower, we remain confident that AT can continue its high external growth phase to compliment strong performance of the existing portfolio and spur FFO I and NAV growth.

Edging forecast higher on new portfolio figures The February run rates suggest that Aroundtown capped off a very strong 2017 with further acquisitions to kick off the New Year. Commercial properties now top the €9.3bn level. The update confirms the steady growth trend that has persisted since the exceptional performance realised in H1/17.

Figure 1: Commercial portfolio development



Source: First Berlin Equity Research; Aroundtown SA

We adjust our 2018 commercial property assumptions to €10.8bn (old: €10.4bn) to reflect the stronger than expected early development. Given its full pipeline and ample financial firepower, Aroundtown appears well positioned to continue the steady acquisition pace of the past months (Figure 1) to compliment the strong performance of the existing portfolio and spur FFO I and NAV growth. Our adjusted model now yields a fair value of €8.20 per share (old: €8.10).

Table 1: Changes to our forecasts

All figures in EUR '000	2017E			2018E		
	Old	New	% change	Old	New	% change
Rental income	492,827	492,827	0.0%	665,509	682,773	2.6%
Adjusted EBITDA (commercial) ¹	329,941	329,941	0.0%	451,535	463,568	2.7%
margin	66.9%	66.9%	-	67.8%	67.9%	-
FFO I ¹	261,322	261,322	0.0%	357,650	366,619	2.5%
FFOPS I (€)	0.32	0.32	0.0%	0.38	0.39	2.5%

¹ adjusted for property disposals to reflect recurring

Source: First Berlin Equity Research



VALUATION MODEL

in €'000	2017E	2018E	2019E
Shareholders' equity	6,404,532	6,881,220	7,351,938
Total equity	7,037,248	7,675,572	8,323,546
NAV per share	7.43	8.10	8.79
Net deferred taxes	572,961	646,906	715,857
Derivative financial instruments	7,241	7,603	7,983
Convertible bond	292,980	292,980	292,980
EPRA NAV (inc hybrid notes)	7,277,714	7,828,708	8,368,757
EPRA NAV per share	7.68	8.26	8.83
FFO	261,322	366,619	439,168
Revaluation results	1,089,627	410,803	405,595
New Equity	870,140	-	-
Total return	2,221,088	777,422	844,763

Return on NAV	51.1%	10.7%	10.8%
Cost of equity	6.0%	6.0%	6.0%
Spread (percentage points)	45.1%	4.7%	4.8%

	2017E	2018E	2019E
WACC	4.2%	4.2%	4.2%
Value creation	3,281,426	367,967	402,418
NPV	3,281,426	353,370	370,874
Dividends paid	107,658	169,859	238,302
Present value of dividends paid	107,658	163,121	219,622

Fair value calculation			
PV of total value created	4,005,670		
EPRA NAV (2016)	3,568,440		
Adjustments	-		
Equity value	7,574,110		
PV of dividends	742,877		
Fair value	8,316,987		
Number of shares (000's, fully diluted)	1,020,093		
Fair value per share €	8.20		

Valuation metrics	2017E	2018E	2019E
Price target (€)	8.20	8.20	8.20
Share price (€)	6.50	6.50	6.50
Return potential	26.1%	26.1%	26.1%
Dividend yield	2.8%	3.9%	4.6%
Total return potential	28.9%	30.0%	30.7%
NAV discount / premium (share price)	-15.4%	-21.3%	-26.4%
FFOPS I yield	4.7%	6.0%	7.1%



INCOME STATEMENT

All figures in EUR '000	2015	2016	2017E	2018E	2019E
Net rent	107,014	234,013	421,367	583,771	705,202
Operating and other income	18,148	39,686	71,460	99,002	119,596
Rental and operating income (RI)	125,162	273,699	492,827	682,773	824,798
Capital gains, property revaluations & other	814,511	719,517	1,089,627	410,803	405,595
Result from equity-accounted investees	134,138	197,064	178,278	138,729	149,318
Property OpEx	-28,529	-75,353	-136,513	-189,128	-229,294
Administration & other OpEx	-4,287	-7,921	-14,785	-19,118	-22,270
Operating income (EBIT)	1,040,995	1,107,006	1,609,434	1,024,059	1,128,147
Net financial result	-20,466	-47,408	-68,414	-85,502	-105,894
Other financial expenses	7,869	-35,883	0	0	0
Pre-tax income (EBT)	1,028,398	1,023,715	1,541,020	938,558	1,022,253
Tax expense	-9,264	-19,910	-33,611	-56,429	-67,026
Deferred tax	-98,380	-102,711	-207,029	-73,944	-68,951
Tax result	-107,644	-122,621	-240,640	-130,374	-135,977
Comprehensive net income	920,754	901,094	1,300,379	808,184	886,276
Minority interests	233,862	169,186	260,076	161,637	177,255
Hybrid note investors	0	3,699	28,500	32,500	32,500
Net income to owners	686,892	728,209	1,011,803	614,047	676,520
Basic EPS (in €)	1.26	1.11	1.19	0.65	0.71
Diluted EPS (in €)	1.01	0.87	1.06	0.60	0.66
Adjusted EBITDA commercial	92,723	194,541	329,941	463,568	562,603
Ratios					
Adjusted EBITDA commercial margin	74.1%	71.1%	66.9%	67.9%	68.2%
Tax rate	6.0%	7.4%	8.7%	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%	80.1%	38.5%	20.8%
Operating income	2.9%	6.3%	45.4%	-36.4%	10.2%
Adjusted EBITDA	-30.7%	109.8%	69.6%	40.5%	21.4%
Net income/ loss	-3.9%	6.0%	38.9%	-39.3%	10.2%
Funds from Operations (FFO)					
Adjusted EBITDA commercial portfolio	92,723	194,541	329,941	463,568	562,603
Finance expense	-20,466	-47,408	-68,414	-85,502	-105,894
Tax expense	-9,264	-19,910	-33,611	-56,429	-67,026
Minority adjustment	-7,900	-7,458	-7,176	-7,647	-8,135
FFO I commercial portfolio	55,093	119,765	220,740	313,990	381,547
FFO related to properties for disposal	0	0	-16,400	-10,000	-10,000
FFO I commercial (long-term recurring)	55,093	119,765	204,340	303,990	371,547
Adjustment for GCP contribution	38,956	45,862	56,982	62,629	67,621
FFO I	94,049	165,627	261,322	366,619	439,168



BALANCE SHEET

All figures in EUR '000	2015	2016	2017E	2018E	2019E
Assets					
Current assets, total	432,545	1,100,047	1,352,995	1,353,933	1,429,582
Cash and cash equivalents	121,243	641,400	603,128	596,430	632,811
Short-term investments	261,527	180,810	59,667	14,917	14,917
Receivables	45,562	111,293	135,021	187,061	225,972
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	11,160,242	13,306,973	15,127,488
Property, plant & equipment	5,123	22,799	23,255	23,720	24,194
Investment properties	2,430,595	5,016,235	8,831,809	10,841,310	12,527,958
Equity accounted investees	1,183,148	1,557,044	1,924,622	2,016,289	2,110,884
Other LT assets	388,736	392,827	380,557	425,655	464,452
Total assets	4,440,147	8,088,952	12,513,237	14,660,906	16,557,070
Shareholders' equity & debt					
Current liabilities, total	241,278	348,839	431,881	641,983	746,688
Short-term debt	129,426	159,965	82,571	214,105	257,037
Accounts payable	95,971	107,721	187,004	259,080	314,101
Provisions & other current liabilities	15,881	81,153	162,306	168,798	175,550
Long-term liabilities, total	1,773,357	3,799,033	5,044,108	6,343,351	7,486,836
Long-term debt	1,521,557	3,384,658	4,421,528	5,645,617	6,718,907
Deferred tax liabilities	185,774	365,932	572,961	646,906	715,857
Other LT liabilities	66,026	48,443	49,619	50,828	52,073
Minority interests	320,103	372,640	632,716	794,353	971,608
Shareholders' equity	2,105,409	3,568,440	6,404,532	6,881,220	7,351,938
Total consolidated equity and debt	4,440,147	8,088,952	12,513,237	14,660,906	16,557,070
Ratios					
Current ratio (x)	1.79	3.15	3.13	2.11	1.91
Equity ratio	54.6%	48.7%	56.2%	52.4%	50.3%
Financial leverage	60.0%	76.7%	59.8%	76.1%	85.9%
EPRA NAV	2,720,687	3,870,770	6,181,837	6,732,831	7,272,880
EPRA NAVPS (€)	3.70	5.40	7.68	8.26	8.83
Net debt	1,264,000	2,737,437	3,829,742	5,236,467	6,315,950
Return on equity (ROE)	43.7%	25.3%	20.3%	11.7%	12.1%
Loan-to-value (LTV)	34.5%	39.3%	33.4%	38.5%	40.9%
LTV without convertible bond	19.0%	34.0%	30.8%	36.3%	39.0%



CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017E	2018E	2019E
Net income	920,754	901,094	1,300,379	808,184	886,276
Depreciation & amortisation	377	2,006	986	1,366	1,650
Capital gains, property revaluations & other	-814,511	-719,517	-1,089,627	-410,803	-405,595
Profit share from equity accounted investees	-134,138	-197,064	-178,278	-138,729	-149,318
Shared based payment in a subsidiary	0	2,110	0	0	0
Net finance expenses	12,597	83,291	68,414	85,502	105,894
Tax result	107,644	122,621	240,640	130,374	135,977
Operating cash flow	92,723	194,541	342,515	475,893	574,884
Changes in working capital	-3,842	-17,277	122,097	-20,502	-17,980
Provisions for other liabilities	6,355	-871	80,899	6,179	6,374
Dividend received	7,445	17,948	40,700	47,062	54,722
Tax paid	-8,376	-15,537	-33,611	-56,429	-67,026
Net operating cash flow	94,305	178,804	552,600	452,203	550,974
CapEx/ intangibles	-957	-6,653	-1,442	-1,831	-2,124
Disposal/ investment in investment properties, net	-776,436	-1,050,803	-2,725,947	-1,598,698	-1,281,053
Acquisition/disposals of subsidiaries	-386,297	-994,129	-618,298	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	-3,277,722	-1,559,163	-1,286,618
Debt financing, net	1,230,276	1,786,100	1,375,182	1,355,623	1,116,221
Equity financing, net	319,731	740,942	1,487,740	0	0
Dividends paid	0	-34,490	-107,658	-169,859	-238,302
Other financing activities	-112,578	-203,936	0	0	0
Net paid financing expenses	-19,760	-44,606	-68,414	-85,502	-105,894
Cash flow from financing	1,417,669	2,244,010	2,686,851	1,100,262	772,025
Net cash flows	93,249	522,535	-38,272	-6,698	36,380
Assets held for sale - cash	0	-2378	0	0	0
Cash, start of the year	27,994	121,243	641,400	603,128	596,430
Cash, end of the year	121,243	641,400	603,128	596,430	632,811
Adjusted EBITDA commercial/share (€)	0.17	0.30	0.39	0.49	0.59
FFO I	94,049	165,627	261,322	366,619	439,168
FFOPS I (€)	0.17	0.25	0.31	0.39	0.46
Y/Y Growth					
EBITDA/share	42.0%	75.7%	30.0%	26.4%	21.4%
FFO I	142.7%	76.1%	57.8%	40.3%	19.8%
FFOPS I	114.9%	47.5%	21.0%	26.2%	19.8%

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...13	↓	↓	↓	↓
14	7 September 2017	€5.63	Buy	€7.20
15	23 October 2017	€6.04	Buy	€7.60
16	11 December 2017	€6.43	Buy	€8.10
17	Today	€6.50	Buy	€8.20

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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%.

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The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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Legally required information regarding

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

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

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