

Aroundtown SA

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

MDAX
 Inclusion

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 8.20
 29.1%
 Medium

AROUNDTOWN SET TO JOIN THE MDAX

As expected, Aroundtown will join the Deutsche Börse's MDAX as of 19 March 2018 via Fast Entry Rule. This milestone follows last week's announced inclusion in the FTSE/EPRA and GPR 250 indices and is traced to measures undertaken last year including the uplisting into the Prime Standard of the Frankfurt Stock Exchange. We expect the upgrade into the MDAX to further boost investor sentiment and trading volumes. Our rating remains Buy with an €8.20 price target.

Operations set for another solid year... We wrote in yesterday's note on why we regard Aroundtown as the best positioned of the German commercial RE operators: (1) a full pipeline and top deal sourcing owing to a wide network built up over the last 14 years; (2) excellent access to the capital markets; (3) strategic focus on underperforming assets providing huge operating upside; and (4) the resulting dual growth engine for external and operational growth. Aroundtown shares are beginning to recover from the sector dip, which saw the stock price slide some 9% after hitting a €6.70 high in mid January. We expect this to continue as investors focus more on fundamentals than sentiment.

...spurred by external and organic growth As we also highlighted in yesterday's update, contrary to the fears which triggered the sector sell-off last month, German commercial operators should benefit from strong market fundamentals. We expect Aroundtown's commercial property portfolio to approach the €11bn mark this year and drive both NAVPS (FBe: +13%) and FFOPS (FBe: +26%) growth in 2018. Aroundtown will report 2017 results and host a conference call on 28 March 2018.

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	8228.71	8768.76
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	1023.26	1059.99

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/ Netherlands real estate markets.

MARKET DATA

As of 05 Mar 2018

Closing Price	€ 6.35
Shares outstanding	947.88m
Market Capitalisation	€ 6019.04m
52-week Range	€ 4.00 / 6.68
Avg. Volume (12 Months)	698,127

Multiples	2016	2017E	2018E
P/FFO I	25.0	20.7	16.4
P/EPRA NAV	1.3	1.0	0.9
FFO I/Yield	4.0%	4.8%	6.1%
Div. Yield	2.5%	2.8%	4.0%

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	€ 6,471.20m

¹ includes perpetual notes

SHAREHOLDERS

Avisco Group	40.3%
Free Float	59.7%



EPRA NAV VALUATION MODEL

in €'000	2017E	2018E	2019E
Shareholders' equity	6,404,532	7,281,220	7,751,938
Total equity	7,037,248	8,075,572	8,723,546
NAV per share	7.43	8.52	9.21
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	8,228,708	8,768,757
EPRA NAV per share	7.68	8.69	9.26
FFO	261,322	366,619	439,168
Revaluation results	1,089,627	410,803	405,595
Total return	2,221,088	777,422	844,763

Return on NAV	51.1%	10.7%	10.3%
Cost of equity	6.0%	6.0%	6.0%
Spread (percentage points)	45.1%	4.7%	4.3%

	2017E	2018E	2019E
WACC	4.2%	4.2%	4.2%
Value creation	3,281,426	386,768	375,658
NPV	3,281,426	373,946	348,561
Dividends paid	107,658	169,859	238,302
Present value of dividends paid	107,658	164,228	221,113

Fair value calculation			
PV of total value created	4,003,933		
EPRA NAV (2016)	3,568,440		
Adjustments	-		
Equity value	7,572,373		
PV of dividends	747,189		
Fair value	8,319,562		
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 (€)	6.35	6.35	6.35
Return potential	29.1%	29.1%	29.1%
Dividend yield	2.8%	4.0%	4.7%
Total return potential	32.0%	33.1%	33.9%
NAV discount / premium (share price)	-17.3%	-26.9%	-31.4%
FFOPS I yield	4.8%	6.1%	7.3%



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	1,753,933	1,829,582
Cash and cash equivalents	121,243	641,400	603,128	996,430	1,032,811
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	15,060,906	16,957,070
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	7,281,220	7,751,938
Total consolidated equity and debt	4,440,147	8,088,952	12,513,237	15,060,906	16,957,070
Ratios					
Current ratio (x)	1.79	3.15	3.13	2.73	2.45
Equity ratio	54.6%	48.7%	56.2%	53.6%	51.4%
Financial leverage	60.0%	76.7%	59.8%	66.4%	76.3%
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	8.69	9.26
Net debt	1,264,000	2,737,437	3,829,742	4,836,467	5,915,950
Return on equity (ROE)	43.7%	25.3%	20.3%	11.1%	11.4%
Loan-to-value (LTV)	34.5%	39.3%	33.4%	35.5%	38.3%
LTV without convertible bond	19.0%	34.0%	30.8%	33.4%	36.4%



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	400,000	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	1,500,262	772,025
Net cash flows	93,249	522,535	-38,272	393,302	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	996,430
Cash, end of the year	121,243	641,400	603,128	996,430	1,032,811
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...15	↓	↓	↓	↓
16	11 December 2017	€6.43	Buy	€8.10
17	5 January 2018	€6.50	Buy	€8.20
18	5 March 2018	€6.20	Buy	€8.20
19	Today	€6.35	Buy	€8.20

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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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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/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgallee 12, 60439 Frankfurt

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