

Aroundtown SA

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

Q2 2018
 Results

RATING
BUY

PRICE TARGET
€ 9.00

Return Potential 16.4%
 Risk Rating Medium

NO SIGNS OF A SLOWDOWN; ANOTHER GOOD QUARTER

Second quarter reporting featured strong operational performance with all headline figures again growing at a mid double digit clip. The performance mirrored the strong pace set in Q1 and showed no indication of a slowdown. Net rent climbed 43% Y/Y to €152m, thanks to external and internal portfolio expansion, which spurred 4.6% like-for-like (LFL) total rental income growth. Commercial assets now top €11.9bn after acquisitions of €1.4bn YTD. We look for the strong operational performance to persist, thanks to the full pipeline, abundant financial firepower, and a good market environment. Our valuation model still yields a €9 price target. We reiterate our Buy rating.

Good prospects for continued growth in H2 On the earnings call, management indicated a pipeline of >€1bn, which primarily contains office and hotel assets in core regions, using a 7%—8% unlevered NOI (net operating income) as a hurdle rate for future deals. The company exited June with €1.2bn in cash and liquid assets and confirmed overall financial firepower of some €2bn, while keeping the LTV <45%. This gives AT excellent financial flexibility to execute on deal flow and capitalise on ample opportunities in its core markets, which now include London. The British capital now constitutes 4% of commercial assets. A dip in the London market has allowed AT to leverage its financial strengths, value-add expertise, and network to box out other buy-and-hold landlords to build its London portfolio. Spurred by the good business momentum in the second quarter, the AT share price continued to appreciate and to posted all time highs this month. We continue to see good growth prospects for AT this year (FBe: FFOPS 1: +11%, NAVPS: +20%) supported a German economy that appears back on its feet (overleaf) after a sluggish start to the year.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Net rent (€m)	106.39	233.38	448.98	596.46	684.66	720.88
Adj. EBITDA (€m)	92.7	194.5	369.1	490.1	557.6	588.8
Net income (€m)	920.75	901.09	1539.00	1312.29	833.92	809.80
EPS (diluted) (€)	1.01	0.9	1.4	1.02	0.64	0.60
EPRA NAV ¹ (€m)	2720.69	4349.05	7656.28	9744.53	10385.25	10812.30
NAVPS ¹ (€m)	3.70	5.40	7.63	9.08	9.95	10.36
DPS (€)	0.05	0.16	0.23	0.25	0.29	0.31
FFO 1 (€m)	94.05	165.63	293.00	399.64	460.64	490.64
FFOPS 1 (€)	0.17	0.25	0.4	0.40	0.44	0.5
Liquid assets (€m)	386.98	833.44	852.44	1134.45	242.16	234.46

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 29 Aug 2018

Closing Price	€ 7.74
Shares outstanding	1077.00m
Market Capitalisation	€ 8330.60m
52-week Range	€ 5.45 / 7.74
Avg. Volume (12 Months)	2,201,841

Multiples	2017	2018E	2019E
P/FFO 1	21.7	20.8	17.5
P/EPRA NAV	1.0	0.9	0.8
FFO 1 Yield	4.6%	4.8%	5.7%
Div. Yield	3.0%	3.2%	3.7%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	€ 1,244.00m
Current Assets	€ 2,084.00m
EPRA NAV ¹	€ 9,505.00m
Total Assets	€ 16,914.00m
Current Liabilities	€ 711.00m
Total Equity	€ 8548.00m

¹ includes perpetual notes

SHAREHOLDERS

Avisco Group	35.4%
Free Float	64.6%



Is the German economy plateauing... The IMF cut its German GDP growth outlook in July to 2.2% (old: 2.5%) citing increased short term risk exposure to the usual suspects: US protectionism and a looming hard Brexit. Despite these risks, business in Germany is booming according to over 9k companies surveyed by the Ifo. The German business sentiment index rose sharply in August to 103.8—its highest mark since February and easily topped consensus (101.9). Sentiment in the service and manufacturing sectors was particularly positive.

... not if the job market is an indicator Meanwhile, the German jobless rate fell to 5.2% in May and held steady at 5.2% in the July report as companies scramble to hire skilled workers and expand workspaces. After a shaky start to the year, market observers are now postponing calls for an economic slowdown in Germany. Office uptake is at the high levels from 2017 led by Munich and Berlin. JLL (Jones Lang Lasalle) noted in its H1 market update that the vacancy rate for the Big 7 has fallen by a further 20 basis points to 4.3% within the last three months. “If this pace is maintained, all vacancies in the Big 7 would disappear in around five years’ time.” The theoretical point underscores the acute shortage of quality space, especially in Berlin, which constitutes 18% of Aroundtown’s office portfolio.

New build unable to fill the gap in the near term In the first six months, only 329k m² of new space came online across the Big 7 with another 674k m² set for completion in H2. Even more sobering is the fact that only 141k m² of this new space is still available with the bulk already pre-let.



H1 RESULTS: Q2 PICKS UP WHERE Q1 LEFT OFF

As of Q2, AT realised total like-for-like (LFL) rental growth of 4.6% comprising 2.5% in-place rent and 2.1% occupancy increases. Management continue to target >4.0% LFL for the year. Grand City Properties (38% AT stake) likewise showed steady like-for-like growth (2.7% in-place rent; 0.5% occupancy) in the second quarter.

Table 1: Results vs forecasts

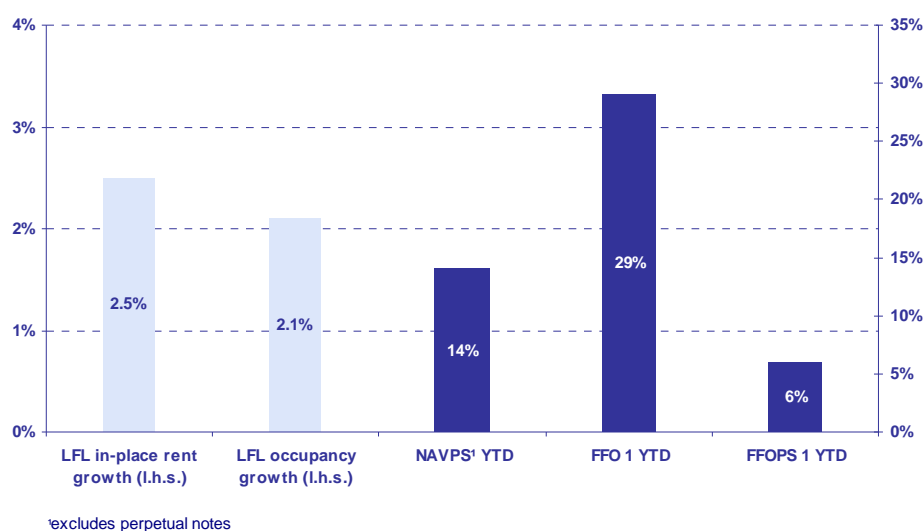
All figures in EURm	Q2/18	Q2/18E	variance	Q2/17	variance	H1/18	H1/17	variance
Recurring LT net rental income	147	141	4.3%	97	52%	278	184	51%
Net rental income	152	143	6.3%	107	43%	291	204	43%
Rental and operating income	181	173	4.6%	123	47%	347	237	46%
Adjusted EBITDA commercial	119	111	7.2%	96	24%	227	168	35%
Margin	66%	64%	-	78%	-	65%	70%	-
Adjusted EBITDA	146	137	6.6%	102	44%	280	195	44%
Margin	81%	79%	-	83%	-	81%	82%	-
FFO 1	98	92	7.1%	71	38%	189	130	46%
FFOPS 1 (€)	0.10	0.09	2.1%	0.09	6.7%	0.19	0.18	5.6%

Source: First Berlin Equity Research; Aroundtown SA

Net rental income (NRI) rose 43% Y/Y to €152m (FBe: €141m) and 9% sequentially. Recurring net rental income—excluding RI from properties earmarked for disposal—was up 52% Y/Y to €147m. On a half year basis, NRI rose 43%, while recurring NRI was up 46%. On an annualised basis, recurring NRI stood at €587m as of June 2018 (+41% YTD) giving us a high degree of confidence in our current €590m target.

The capital gains, property revaluations and other income line item totalled €553m for the quarter (Q2/17: €535m) and €900m at the half year juncture (H1/17: €747m). The strong development relates to Aroundtown's value-add business model: acquiring properties with high revisionary potential and value creation upside through asset repositioning. Net profit climbed 13% to €600m in the second quarter and €970m (+25% Y/Y) in the first six months owing to portfolio growth and the unlocking of embedded value.

Figure 1: Operating performance as of 30 June

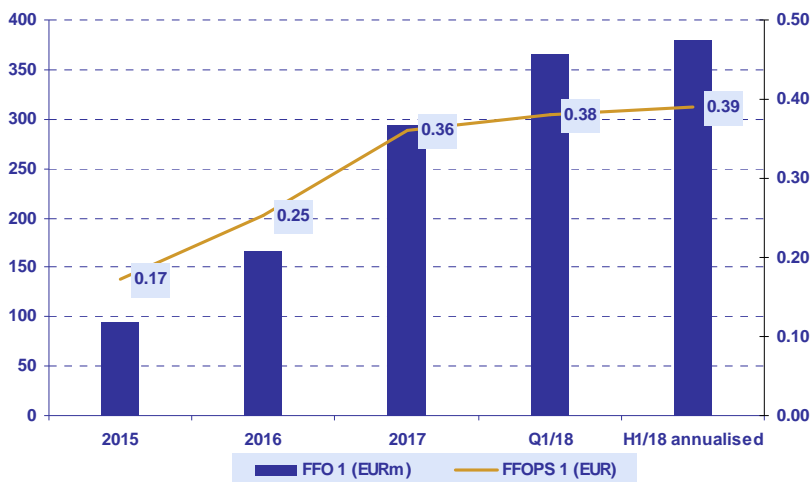


Source: First Berlin Equity Research; Aroundtown



'Adjusted EBITDA commercial, recurring long-term' reflects the operational profit of the commercial portfolio by excluding revaluation effects, disposal gains, and share of profits from investments in equity-accounted investees. This climbed 24% in Q2 to €119m and 10% Q/Q. The increase is traced to external growth realised through accretive acquisitions and improving occupancy rates and rent levels. Including the 38% GCP stake, adjusted EBITDA rose 44% Y/Y to €146m. The KPIs were even stronger on a six month basis with Adjusted EBITDA commercial, recurring long-term rising 35% Y/Y and adjusted EBITDA up 44%. As of June 2018, the portfolio generates monthly annualised adjusted EBITDA of €559m (+30% YTD). This is on a recurring long term basis and is unaffected by properties held for disposal.

Figure 2: FFO 1 and FFOPS 1 developments



Source: First Berlin Equity Research; Aroundtown

FFO 1, the key industry indicator for recurring cash flow, climbed 38% Y/Y to €89m equating to FFOPS 1 of €0.10. This topped our estimate by 7%, owing to the better than expected top line performance. On a half year basis, FFO 1 reached €189m (+46%) translating into FFOPS 1 of €0.19. The annualised FFO 1 run rate is now €379m with an FFOPS 1 run rate of €0.39, which corresponds to a 5.0% yield.

Asset rotation spurs FFO 2 Thanks to some €500m in property disposals in H1, FFO 2 amounted to €300m. As part of its asset rotation strategy, the disposed assets were mainly in non-core locations or fully stabilised properties. Some 30 properties were sold 15% above book value at a 28% disposal margin and 24x NR. Proceeds will be reinvested according to the core strategy. On the conference call, management noted disposals of €235m post reporting, and we expect further asset rotation on a select basis once management have harvested all the embedded upside of certain properties.

**Table 2: Commercial investment properties overview**

	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	6,371	2,726	11.0%	324	10.8	2,338	5.1%
Hotel	2,796	969	5.4%	136	13.3	2,885	4.9%
Retail	877	448	9.2%	56	10.6	1,957	6.4%
Logistics/Wholesale	1,177	1,377	5.3%	71	4.5	855	6.0%
Land for development & rights	663						
Total	11,884	5,520	8.9%	587	9.5	2,033	5.2%

Source: First Berlin Equity Research; Aroundtown

Investment properties (excluding assets held for sale) stood at €11.9bn (Q1: €10.9bn), while the asset mix continues to be dominated by attractive office and hotel properties featuring high revisionary potential and good demographics. AT purchased a blend of predominantly office and hotel assets through June for €1.4bn and hinted at a further €0.5bn thus far in Q3. We expect office and hotels to remain the focus, whereas the retail segment will continue to be de-emphasised although the company also said on the earnings call that many of the retail assets are situated in highly coveted locations, such as Berlin's Kurfürstendamm. Management also underscored that it does not plan to develop the assets categorised as 'Land for development & building rights,' which continued to grow in Q2. Rather the company prefers to extract the value by disposing of the building rights sometime in 2019 and has a team in place focused on their development.

Table 3: Financial highlights

All figures in EURm	H1/18	YE17	variance
Cash and liquid assets	1,244	849	47%
Investment property	11,884	9,804	21%
Investment in equity-accounted investees	1,991	1,906	4%
Total assets	16,914	13,770	23%
Net debt	5,465	4,400	24%
Total equity	8,548	7,250	18%
Equity ratio	51%	53%	
EPRA NAV	7,941	6,483	22%
EPRA NAV inc perpetual notes	9,505	7,756	23%
Loan-to-Value (LTV)	37%	36%	-
LTV pro forma*	35%	33%	-

* assumes full conversion of the deep in the money convertible bonds; €105 submitted for conversion post reporting

Source: First Berlin Equity Research; Aroundtown

As of 30 June, EPRA NAV totalled €7.9bn (€7.2 / share) compared to €6.5bn at year end 2017 (€6.5 /share, +14% YTD, +4% Q/Q). NAV growth stems predominantly from the high growth pace, portfolio value extraction and the equity raise in March 2018. Including perpetual notes, which are classified as equity under IFRS, this KPI stood at €9.5bn or €8.6 / share (+13% YTD).

Top balance sheet metrics AT reported cash and liquid assets of €1.2bn for the period ended 30 June compared to €849m at the end of Q4/17, while net debt stood at €5.5bn vs €4.4bn at the end of 2017. The debt structure featured an LTV of 37% (35% assuming bond conversion), which remains well below the 45% internal limit set by the Management Board. AT also announced that select holders of its €300m convertible bond due 2021 will submit their bonds for conversion for an amount of €174m. Coverage ratios were solid with a debt service coverage ratio (DSCR) and an interest coverage ratio (ICR) of 3.8x and 4.7x respectively at the end of Q2, while unencumbered assets remained steady at 71%. The debt structure features a 1.7% average cost of debt with a 7.4 year maturity, giving AT the longest maturity among the German commercial landlords. The abundant cash position continues pay off and played a big role in allowing AT to quickly gain a London foothold.



VALUATION MODEL

We have frequently highlighted Aroundtown's operational strengths and excellent turnaround track record of increasing in-place rent levels in its portfolio while compressing vacancy rates. Q2 reporting supports this stance and our belief that this performance will persist spurred by a thriving commercial market. Our rating remains Buy with a €9 price target.

in €m	2018E	2019E	2020E
Shareholders' equity	8,572	9,063	9,493
Total equity	9,193	9,767	10,278
NAV per share	8.57	9.36	9.85
Net deferred taxes	973	1,116	1,256
Derivative financial instruments	58	61	64
Convertible bond	142	145	-
EPRA NAV (inc. perpetual notes)	9,745	10,385	10,812
EPRA NAV per share (inc. perpetual notes)	9.08	9.95	10.36
FFO	400	461	491
Revaluation results	974	414	368
Total return	1,374	874	859

EPRA NAV	9,745	10,385	10,812
Return on NAV	17.9%	9.0%	8.3%
Cost of equity	5.7%	5.7%	5.7%
Spread (percentage points)	12.2%	3.3%	2.6%

	2018E	2019E	2020E
WACC	4.0%	4.0%	4.0%
Value creation	1,192	338	276
NPV	1,176	321	252
Dividends paid	190	260	299
Present value of dividends paid	188	247	273

Fair value calculation			
PV of total value created	1,749		
EPRA NAV (2017)	7,656		
Equity value	9,405		
PV of dividends	708		
Fair value	10,113		
Diluted share count (m)	1,122		
Fair value per share €	9.00		

Valuation metrics	2018E	2019E	2020E
Price target (€)	9.00	9.00	9.00
Share price (€)	7.75	7.75	7.75
Return potential	16.2%	16.2%	16.2%
Dividend yield	3.2%	3.7%	3.9%
Total return potential	19.4%	19.9%	20.2%
NAV discount / premium (share price)	-14.7%	-22.2%	-25.3%
FFOPS I yield	4.8%	5.7%	6.1%



INCOME STATEMENT

All figures in EURm	2015	2016	2017	2018E	2019E	2020E
Net rent	106	233	449	596	685	721
Operating and other income	19	40	78	103	118	125
Rental and operating income (RI)	125	274	527	700	803	846
Capital gains, property revaluations & other	815	720	1,327	974	414	368
Result from equity-accounted investees	134	197	228	256	162	155
Property OpEx	-29	-75	-147	-195	-227	-239
Administration & other OpEx	-4	-8	-15	-19	-22	-21
Operating income (EBIT)	1,041	1,107	1,920	1,717	1,129	1,108
Net financial result	-20	-47	-70	-100	-105	-108
Other financial expenses	8	-36	-15	-42	0	0
Pre-tax income (EBT)	1,028	1,024	1,836	1,575	1,024	1,000
Tax expense	-9	-20	-34	-42	-47	-50
Deferred tax	-98	-103	-263	-221	-143	-140
Tax result	-108	-123	-297	-263	-190	-190
Comprehensive net income	921	901	1,539	1,312	834	810
Minority interests	234	169	228	131	83	81
Perpetual notes	0	4	29	47	45	45
Net income to owners	687	728	1,283	1,134	706	684
Basic EPS (€)	1.26	1.11	1.56	1.06	0.68	0.66
Diluted EPS (€)	1.01	0.87	1.35	1.01	0.63	0.61
Adjusted EBITDA commercial	93	195	369	490	558	589
Ratios						
Adjusted EBITDA commercial margin	74.1%	71.1%	70.0%	70.1%	69.4%	69.6%
Tax rate	6.0%	7.4%	7.8%	7.5%	7.3%	7.4%
Expenses as % of revenues						
Property OpEx	22.8%	27.5%	27.9%	27.8%	28.3%	28.3%
Administration & other OpEx	3.4%	2.9%	2.8%	2.7%	2.7%	2.5%
Y/Y Growth						
Revenues	-51.3%	118.7%	92.6%	32.7%	14.8%	5.3%
Operating income	2.9%	6.3%	73.5%	-10.6%	-34.2%	-1.8%
Adjusted EBITDA	-30.7%	109.8%	89.7%	32.8%	13.8%	5.6%
Net income/ loss	-3.9%	6.0%	76.1%	-11.6%	-37.8%	-3.1%
Funds from Operations (FFO)						
Adjusted EBITDA commercial portfolio	93	195	369	490	558	589
Finance expense	-20	-47	-70	-100	-105	-108
Tax expense	-9	-20	-34	-42	-47	-50
Minority adjustment	-8	-7	-9	-8	-8	-9
FFO 1 commercial portfolio	55	120	257	340	397	421
FFO related to properties for disposal	0	0	-20	-7	-7	-7
FFO 1 commercial (long-term recurring)	55	120	237	333	390	414
Adjustment for GCP contribution	39	46	56	66	70	76
FFO 1	94	166	293	400	461	491



BALANCE SHEET

All figures in EURm	2015	2016	2017	2018E	2019E	2020E
Assets						
Current assets, total	433	1,100	1,523	2,034	1,170	1,174
Cash and cash equivalents	121	641	736	1,067	174	166
Short-term investments	262	181	99	49	49	49
Receivables	46	111	163	192	220	232
Other current assets	4	11	18	18	19	19
Assets held for sale	0	155	508	708	708	708
Non-current assets, total	4,008	6,989	12,247	15,124	16,526	17,601
Property, plant & equipment	5	23	26	26	27	27
Investment properties	2,431	5,016	9,804	12,287	13,549	14,501
Equity accounted investees	1,183	1,557	1,906	2,113	2,218	2,312
Other LT assets	389	393	512	697	732	761
Total assets	4,440	8,089	13,770	17,158	17,696	18,775
Shareholders' equity & debt						
Current liabilities, total	241	349	566	566	621	649
Short-term debt	129	160	17	17	17	17
Accounts payable	96	108	267	256	299	315
Provisions & other current liabilities	16	81	282	293	305	317
Long-term liabilities, total	1,773	3,799	5,955	7,398	7,308	7,849
Long-term debt	1,522	3,385	5,078	6,297	6,058	6,454
Deferred tax liabilities	186	366	752	973	1,116	1,256
Other LT liabilities	66	48	125	129	133	138
Minority interests	320	373	674	621	704	785
Shareholders' equity	2,105	3,568	6,576	8,572	9,063	9,493
Total consolidated equity and debt	4,440	8,089	13,770	17,158	17,696	18,775
Ratios						
Current ratio (x)	1.79	3.15	2.69	3.59	1.88	1.81
Equity ratio	54.6%	48.7%	52.6%	53.6%	55.2%	54.7%
EPRA NAV	2,721	3,871	6,483	8,171	8,812	9,239
EPRA NAVPS (€)	3.70	4.90	6.46	7.61	8.45	8.85
Net debt	1,076	2,737	4,400	5,179	5,833	6,237
Return on equity (ROE)	43.7%	25.3%	23.4%	15.3%	9.2%	8.5%
Loan-to-value (LTV)	29.4%	39.3%	35.9%	33.7%	34.8%	35.0%
LTV without convertible bond	19.0%	34.0%	33.5%	32.8%	34.0%	35.0%



CASH FLOW STATEMENT

All figures in EURm	2015	2016	2017	2018E	2019E	2020E
Net income	921	901	1,539	1,312	834	810
Depreciation & amortisation	0	2	2	2	2	2
Capital gains, property revaluations & other	-815	-720	-1,327	-974	-414	-368
Profit share from equity accounted investees	-134	-197	-228	-256	-162	-155
Shared based payment in a subsidiary	0	2	2	0	0	0
Net finance expenses	13	83	85	142	105	108
Tax result	108	123	297	263	190	190
Operating cash flow	93	195	369	488	556	587
Changes in working capital	-4	-17	-13	-216	-11	-15
Provisions for other liabilities	6	-1	-2	12	12	12
Dividend received	7	18	41	48	57	62
Tax paid	-8	-16	-33	-42	-47	-50
Net operating cash flow	94	179	362	290	567	595
CapEx/ intangibles	-1	-7	-9	-2	-2	-2
Disposal/ investment in investment properties, net	-776	-1,051	-615	-1,509	-848	-584
Acquisition/disposals of subsidiaries	-386	-994	-1,946	-200	0	0
Proceeds from investments in financial assets	-255	151	-184	43	-6	-6
Cash flow from investing	-1,419	-1,900	-2,754	-1,667	-856	-592
Debt financing, net	1,230	1,786	1,165	1,219	-238	396
Equity financing, net	320	741	1,561	1,006	0	0
Dividends paid	0	-34	-155	-190	-260	-299
Other financing activities	-113	-204	-13	-185	0	0
Net paid financing expenses	-20	-45	-66	-142	-105	-108
Cash flow from financing	1,418	2,244	2,492	1,708	-603	-11
Net cash flows	93	523	100	331	-893	-8
Assets held for sale - cash	0	-2	-5	0	0	0
Cash, start of the year	28	121	641	736	1,067	174
Cash, end of the year	121	641	736	1,067	174	166
Adjusted EBITDA commercial/share (€)	0.17	0.30	0.41	0.43	0.51	0.54
FFO 1	94	166	293	400	461	491
FFOPS 1 (€)	0.17	0.25	0.36	0.37	0.44	0.47
Y/Y Growth						
EBITDA/share	42.0%	75.7%	38.6%	3.9%	17.9%	5.9%
FFO 1	-99.8%	76.1%	76.9%	36.4%	15.3%	6.5%
FFOPS 1 (€)	114.9%	47.5%	40.7%	4.4%	18.6%	6.5%

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...19	↓	↓	↓	↓
20	29 March 2018	€6.20	Buy	€8.50
21	19 April 2018	€6.39	Buy	€8.50
22	31 May 2018	€7.18	Buy	€9.00
23	Today	€7.74	Buy	€9.00

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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

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