

Aroundtown SA

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

Update

RATING
BUY

PRICE TARGET
€ 9.50

Return Potential 31.0%
 Risk Rating Medium

NO SUMMER LULL: YTD DEALS TOP €2.5BN; NEW FUNDS > €9.9BN

Aroundtown has concluded several issuances the past weeks capped off with a €0.6bn capital increase. Management continue to actively optimise the balance sheet by extending debt maturities, while maintaining good financial firepower after announcing +€2.5bn in YTD acquisitions. We have revised our forecasts to incorporate the strong operational developments and optimised capital structure. The better than expected growth offsets capital increase dilution. We stick to our €9.5 price target and Buy rating.

Flurry of financial activity Aroundtown has been active this summer having injected >€2.9bn in fresh funds into the capital structure, while lengthening the maturity of the debt portfolio. Issuances include: (1) new equity of €0.6bn; (2) perpetual notes of €0.5bn; (3) Series 32 & 33 straight bonds totalling €1.4bn; and (4) £400m (~€464m) in perpetual notes. The company also made cash offers to the holders of its Series D €600m (€260m now outstanding) 1.5% notes due 2022, and the Series F €550m (€211m now outstanding) 2.215% notes due 2023. Last week AT also issued 84m new shares at €7.15 in a private placement for gross proceeds of €601m after upsizing the planned €500m cap hike on high investor demand. Including the 10.9m new shares from the scrip dividend, shares outstanding now climb to 1,224m. The new funds replenish the financial coffers for further growth after strong YTD portfolio expansion.

€2.5bn in signed and closed deals so far this year AT also published two operational updates in July highlighting strong acquisition growth. The company closed some €1.2bn in new properties in German hubs with another €0.4bn in signed deals. This was followed by a further €0.9bn in signings in Germany and Benelux with closings expected by year end. AT noted an acquisition multiple of 21x RI with a 7% vacancy and long term unlevered NOI potential of 7% for YTD deals. Management communicated a sales pipeline of ~€0.7bn in non-core and mature assets. While we had been positive about the commercial market for 2019, the growth was much higher than anticipated. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Net rent (€m)	233.38	448.98	633.00	770.74	856.59	911.59
Adj. EBITDA (€m)	268.2	429.3	606.0	730.9	806.8	858.8
Net income (€m)	901.09	1,539.00	1,827.80	1,202.16	1,177.36	1,094.96
EPS (diluted) (€)	0.88	1.35	1.49	0.88	0.82	0.76
EPRA NAV ¹ (€m)	4,349.05	7,656.28	10,290.10	12,315.67	13,261.88	14,079.02
NAVPS ¹ (€m)	5.40	7.63	9.11	10.07	10.84	11.51
DPS (€)	0.16	0.23	0.25	0.27	0.29	0.31
FFO 1 (€m)	165.63	293.00	405.74	480.73	545.17	585.86
FFOPS 1 (€)	0.25	0.36	0.39	0.41	0.45	0.48
Liquid assets (€m)	833.44	841.60	1,599.50	2,150.69	1,494.53	1,328.09

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 24 Jul 2019

Closing Price	€ 7.25
Shares outstanding	1224.00m
Market Capitalisation	€ 8876.45m
52-week Range	€ 7.00 / 7.88
Avg. Volume (12 Months)	3,477,939

Multiples	2018	2019E	2020E
P/FFO 1	18.8	17.7	16.3
P/EPRA NAV	0.8	0.7	0.7
FFO 1 Yield	5.3%	5.6%	6.1%
Div. Yield	3.5%	3.7%	4.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2019

Liquid Assets	€ 2,119.00m
Current Assets	€ 2,670.00m
EPRA NAV ¹	€ 10,734.00m
Total Assets	€ 20,509.00m
Current Liabilities	€ 445.00m
Total Equity	€ 10,393.00m

¹ including perpetual notes

SHAREHOLDERS

Avisco Group	26.9%
Blackrock	5.1%
Free Float	68.0%



Figure 1: Estimate revisions

	old	new	revision	upside	dividend yield	
Price target (€)	9.5	9.5	0.0%	31.0%	3.7%	
in €m	2019E			2020E		
	Old	New	Variance	Old	New	Variance
Rental income	910	910	0.0%	973	1,011	3.9%
Net rent (NRI)	771	771	0.0%	824	857	3.9%
Adj. EBITDA, commercial	615	615	0.0%	658	684	3.9%
margin	80%	80%	-	80%	80%	-
FFO 1, commercial portfolio	411	411	0.0%	441	471	6.8%
Margin	53%	4%	-	54%	55%	-
FFO 1	481	481	0.0%	515	545	5.9%
Margin	62%	62%	-	63%	64%	-
FFOPS 1 (€)	0.43	0.41	-3.9%	0.46	0.45	-2.4%

Source: First Berlin Equity Research estimates

Sticking to €9.5 price target and Buy rating We have raised our estimates after our previous forecasts—€1.6bn in 2019 acquisitions— failed to capture the external growth pace. We now look for 2019 acquisitions to top €2.7bn, which could quickly become conservative if the company extends the current momentum. Due to the late closings, we model for full impact starting in 2020. FFOPS 1 dips on the increased weighted average share count, but the higher growth offsets share dilution in our economic profit model.

ECONOMIC PROFIT MODEL

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	615	684	729	775	783
(+) Revaluations	830	739	605	527	237
(+) Investment income (GCP)	116	123	130	137	138
(-) Tax expense	55	61	64	68	69
NOPAT	1,506	1,485	1,400	1,370	1,089
Total assets	22,947	24,321	25,635	26,630	26,630
(-) Current liabilities	715	782	827	856	856
(+) Current financial debt	27	27	27	27	27
(-) Cash	1,779	1,123	957	948	948
(+) Deferred taxes	1,005	1,201	1,383	1,561	1,561
Capital employed (CE)	21,485	23,644	25,262	26,414	26,414
Average CE	19,755	22,564	24,453	25,838	26,414
ROCE	7.6%	6.6%	5.7%	5.3%	4.1%
WACC	4.0%	4.0%	4.0%	4.0%	4.0%
ROCE-WACC	3.6%	2.6%	1.8%	1.3%	0.1%
Economic Profit	721	588	428	344	39
NPV	709	556	389	300	1,172
Fair value calculation					
Total return	3,126				
(+) NAV ¹ (2018)	8,742				
(-) Dividend to be paid	264				
Equity value	11,605				
Diluted SO (m)	1,224				
Fair value per share (€)	9.50				
Target price (€)	9.50				
Share price (€)	7.25				
Return potential	31.0%				
Dividend yield	4.0%				
Total return potential	35.0%				



INCOME STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net rent	233	449	633	771	857	912
Operating and other income	40	78	114	139	155	165
Rental and operating income (RI)	274	527	747	910	1,011	1,076
Capital gains, property revaluations & other	720	1,327	1,536	830	739	605
Result from equity-accounted investees	197	228	252	162	162	165
Property OpEx	-75	-147	-219	-266	-295	-314
Administration & other OpEx	-8	-15	-23	-27	-30	-31
Operating income (EBIT)	1,107	1,920	2,294	1,608	1,587	1,501
Net financial result	-47	-70	-115	-147	-147	-153
Other financial expenses	-36	-15	-94	0	0	0
Pre-tax income (EBT)	1,024	1,836	2,085	1,462	1,440	1,349
Tax expense	-20	-34	-44	-55	-61	-65
Deferred tax	-103	-263	-213	-205	-202	-189
Tax result	-123	-297	-257	-260	-262	-254
Comprehensive net income	901	1,539	1,828	1,202	1,177	1,095
Minority interests	169	228	161	120	118	109
Perpetual notes	4	29	46	53	60	60
Net income to owners	728	1,283	1,620	1,029	1,000	926
Basic EPS (€)	1.11	1.56	1.54	0.88	0.82	0.76
Diluted EPS (€)	0.87	1.35	1.49	0.88	0.82	0.76
Adjusted EBITDA commercial	195	339	497	615	684	729
Ratios						
Adj EBITDA commercial margin	83.4%	81.7%	80.9%	79.7%	79.8%	80.0%
Tax rate	7.4%	7.8%	7.3%	7.5%	7.5%	7.5%
Expenses as % of revenues						
Property OpEx	27.5%	27.9%	29.3%	29.2%	29.2%	29.2%
Administration & other OpEx	2.9%	2.8%	3.0%	3.0%	3.0%	2.9%
Y/Y Growth						
Revenues	118.7%	92.6%	41.7%	21.8%	11.1%	6.4%
Operating income	6.3%	73.5%	19.4%	-29.9%	-1.3%	-5.4%
Adjusted EBITDA	109.8%	74.3%	46.5%	23.7%	11.2%	6.6%
Net income/ loss	6.0%	76.1%	26.3%	-36.5%	-2.8%	-7.4%
Funds from Operations (FFO)						
Adjusted EBITDA commercial portfolio	195	339	497	615	684	729
Finance expense	-47	-70	-115	-147	-147	-153
Tax expense	-20	-34	-44	-55	-61	-65
Minority adjustment	-7	-9	-7	-8	-9	-10
Other adjustments	0	10	8	7	4	4
FFO 1 commercial (long-term recurring)	120	237	339	411	471	506
Adjustment for GCP contribution	46	56	67	69	74	80
FFO 1	166	293	406	481	545	586



BALANCE SHEET

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Assets						
Current assets, total	1,100	1,523	2,102	2,698	2,080	1,937
Cash and cash equivalents	641	736	1,243	1,779	1,123	957
Short-term investments	181	99	366	366	366	366
Receivables	111	163	277	337	374	398
Other current assets	11	18	5	5	5	5
Assets held for sale	155	508	211	211	211	211
Non-current assets, total	6,989	12,247	16,939	20,248	22,241	23,698
Property, plant & equipment	23	26	33	34	34	35
Investment properties	5,016	9,804	14,174	17,341	19,207	20,540
Equity accounted investees	1,557	1,906	2,215	2,323	2,428	2,531
Other LT assets	393	512	517	551	572	592
Total assets	8,089	13,770	19,041	22,947	24,321	25,635
Shareholders' equity & debt						
Current liabilities, total	349	566	606	715	782	827
Short-term debt	160	17	27	27	27	27
Accounts payable	108	267	451	555	616	656
Provisions & other current liabilities	81	282	128	133	138	144
Long-term liabilities, total	3,799	5,955	8,491	10,299	10,741	11,269
Long-term debt	3,385	5,078	7,444	9,042	9,277	9,612
Deferred tax liabilities	366	752	882	1,087	1,289	1,477
Other LT liabilities	48	125	164	169	175	180
Minority interests	373	674	567	687	805	915
Shareholders' equity	3,568	6,576	9,377	11,246	11,993	12,624
Total consolidated equity and debt	8,089	13,770	19,041	22,947	24,321	25,635
Ratios						
ICR (x)	5.7	5.4	4.7	4.8	5.3	5.5
Equity ratio	48.7%	52.6%	52.2%	52.0%	52.6%	52.8%
EPRA NAV ¹	3,871	6,483	8,742	10,318	11,264	12,081
EPRA NAVPS ¹ (€)	4.9	6.5	7.7	8.4	9.2	9.9
Net debt	2,737	4,400	5,871	6,919	7,810	8,311
Return on equity (ROE)	25.3%	23.4%	19.5%	10.7%	9.8%	8.7%
Loan-to-value (LTV)	39.3%	35.9%	35.3%	34.7%	35.6%	35.6%
Interest coverage ratio (x)	5.7	5.4	4.7	4.8	5.3	5.5

¹ excludes perpetual notes



CASH FLOW STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net income	901	1,539	1,828	1,202	1,177	1,095
Depreciation & amortisation	2	2	2	2	2	2
Capital gains, property revaluations & other	-720	-1,327	-1,536	-830	-739	-605
Profit share from equity accounted investees	-197	-228	-252	-162	-162	-165
Shared based payment in a subsidiary	2	2	3	0	0	0
Net finance expenses	83	85	208	147	147	153
Tax result	123	297	257	260	262	254
Operating cash flow	195	369	510	619	688	733
Changes in working capital	-17	-13	-39	23	17	10
Provisions for other liabilities	-1	-2	-3	2	2	2
Dividend received	18	41	51	54	57	62
Tax paid	-16	-33	-46	-55	-61	-65
Net operating cash flow	179	362	473	643	703	742
CapEx/ intangibles	-7	-9	-5	-2	-3	-3
Disposal/ investment in investment properties, net	-1,051	-615	-915	-2,337	-1,127	-728
Acquisition/disposals of subsidiaries	-994	-1,946	-1,829	0	0	0
Proceeds from investments in financial assets	151	-184	-175	-5	-5	-5
Cash flow from investing	-1,900	-2,754	-2,924	-2,344	-1,135	-736
Debt financing, net	1,786	1,165	2,588	1,598	235	335
Equity financing, net	741	1,561	953	1,051	0	0
Dividends paid	-34	-155	-226	-264	-312	-354
Other financing activities	-204	-13	-265	0	0	0
Net paid financing expenses	-45	-66	-97	-147	-147	-153
Cash flow from financing	2,244	2,492	2,953	2,238	-224	-172
Net cash flows	523	100	501	537	-656	-167
Assets held for sale - cash	-2	-5	6	0	0	0
Cash, start of the year	121	641	736	1,243	1,779	1,123
Cash, end of the year	641	736	1,243	1,779	1,123	957
Adjusted EBITDA commercial/share (€)	0.30	0.41	0.47	0.52	0.56	0.60
FFO 1	166	293	406	481	545	586
FFOPS 1 (€)	0.25	0.36	0.39	0.41	0.45	0.48
Y/Y Growth						
EBITDA/share	75.7%	38.6%	14.4%	10.7%	6.9%	6.6%
FFO 1	76.1%	76.9%	38.5%	18.5%	13.4%	7.5%
FFOPS 1 (€)	47.5%	40.7%	8.1%	6.0%	9.0%	7.5%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 August 2019	€7.72	Buy	€9.50
2...24	↓	↓	↓	↓
25	4 April 2019	€7.43	Buy	€9.50
26	29 May 2019	€7.38	Buy	€9.50
27	4 July 2019	€7.52	Buy	€9.50
28	Today	€7.25	Buy	€9.50

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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:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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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 Lurgiallee 12, 60439 Frankfurt

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