

Aroundtown SA

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

Q2
 Results

RATING
BUY

PRICE TARGET
€ 9.80

Return Potential 32.4%
 Risk Rating Medium

FFO GUIDANCE UPPED ON STRONG H1 PERFORMANCE

Q2 headline figures were close to our forecasts and showed strong annualised growth led by net rental income (+19%) and FFO 1 (+23%). Commercial assets topped €16.2bn after some €1.2bn in H1 acquisitions. The good H1 performance translated into 11% Y/Y FFOPS 1 growth and a 7.8% NAVPS increase (excluding perpetuals) YTD—including the dividend, the latter KPI was up 11%. Management raised FFO guidance to €490m (old: €460m to €470m) on the good operational performance. Our price target moves to €9.8 (old: €9.5) on the brighter outlook. We stick to our Buy rating.

FFO guidance raised ~5% Including some €1.3bn in deals inked post-H1 reporting, AT has acquired around €2.5bn of mainly hotel and office assets YTD. Although the full impact will not occur until 2020, management now expect the new assets to have some effect in H2. This factor alongside good operational momentum accounts for the increase in FFO 1 guidance to €490m. FFOPS remains stable at €0.41 - €0.42 after this summer's equity raise. We move our 2019 FFO 1 target to €490m (old: €481m). Previously, we had modelled for initial impact of the new signings in 2020.

What else has changed? H1 acquisitions translated into a 10% Q/Q rise in commercial GAV (gross asset value) to €16.2bn. Investment properties are now up 14% YTD. Office and hotels across German hubs remain the focal point of portfolio growth, while Munich led location expansion having more than doubled GAV Q/Q to €1.9bn. Post-reporting deals in Germany and the Benelux will close in H2. The company reiterated confidence in the ability of its broadly diversified portfolio footprint and high office and hotel exposure to offset looming regulatory and economic headwinds, and AT shares have shrugged off these jitters vs other RE index constituents of late. Management also noted on the call that demand for office space in Germany and the Netherlands remains strong according to its rental teams on the ground. Despite the brewing recession, nothing has changed in terms of low vacancy, demand and the inability of new build to fill the gap in demand—particularly since most space coming online is pre-let. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Net rent (€m)	233.38	448.98	633.00	783.38	869.48	925.20
Adj. EBITDA (€m)	268.2	429.3	606.0	741.1	817.1	869.8
Net income (€m)	901.09	1,539.00	1,827.80	1,375.97	1,190.86	1,107.63
EPS (diluted) (€)	0.88	1.35	1.49	1.01	0.83	0.77
EPRA NAV ¹ (€m)	4,349.05	7,656.28	10,290.10	12,500.52	13,455.13	14,279.85
NAVPS ¹ (€m)	5.40	7.63	9.11	10.22	11.00	11.67
DPS (€)	0.16	0.23	0.25	0.27	0.29	0.32
FFO 1 (€m)	165.63	293.00	405.74	490.08	554.44	595.38
FFOPS 1 (€)	0.25	0.36	0.39	0.42	0.45	0.49
Liquid assets (€m)	833.44	841.60	1,599.50	2,162.97	1,503.98	1,333.34

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.

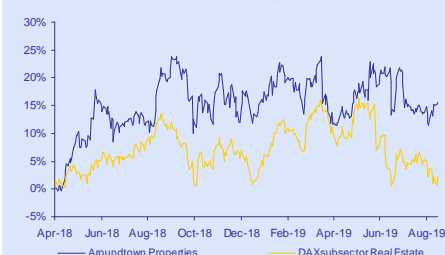
MARKET DATA

As of 28 Aug 2019

Closing Price	€ 7.40
Shares outstanding	1224.00m
Market Capitalisation	€ 9060.05m
52-week Range	€ 7.00 / 7.88
Avg. Volume (12 Months)	3,503,423

Multiples	2018	2019E	2020E
P/FFO 1	19.2	17.8	16.3
P/EPRA NAV	0.8	0.7	0.7
FFO 1 Yield	5.2%	5.6%	6.1%
Div. Yield	3.4%	3.7%	4.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019

Liquid Assets	€ 2,416.00m
Current Assets	€ 2,979.00m
EPRA NAV ¹	€ 11,382.00m
Total Assets	€ 22,667.00m
Current Liabilities	€ 1,007.00m
Total Equity	€ 11,453.00m

¹ including perpetual notes

SHAREHOLDERS

Avisco Group	26.9%
Blackrock	5.1%
Free Float	68.0%



LFL performance stays well north of 4% Both the top line and earnings showed solid Q2 performances led by a 26% Y/Y rise in 'adjusted EBITDA commercial, recurring long-term'. This was spurred by a continued strong like-for-like (LFL) performance. As of Q2, AT realised total LFL rental growth of 4.4% comprising 2.3% in-place rent and 2.1% occupancy increases. This KPI was spurred by Berlin (> 10%) and Amsterdam (> 5%) on a regional basis. The company continues to guide for ~4.0% LFL growth for 2019. The residential landlord, Grand City Properties (39% AT stake; 15% of overall AT portfolio), reported 3.8% LFL growth (3.5% in-place rent; 0.3% occupancy) in Q2.

Table 1: Six month results vs prior year and forecasts

All figures in EURm	Q2/19	Q2/19E	variance	Q2/18	variance	6M/19	6M/18	variance
Recurring LT net rental income	179	177	1.0%	147	22%	355	278	28%
Net rental income	181	178	1.7%	152	19%	359	291	23%
Adjusted EBITDA commercial, recurring LT	150	148	1.5%	119	26%	298	227	31%
Margin	84%	84%	-	81%	-	84%	82%	-
Adjusted EBITDA	185	181	2.2%	146	27%	363	280	30%
FFO 1	121	119	1.7%	98	23%	239	189	26%
FFOPS 1 (€)	0.11	0.10	1.7%	0.10	5%	0.21	0.19	11%

Source: First Berlin Equity Research; Aroundtown

Recurring LT net rental income climbed 22% Y/Y to €179m in Q2. On an annualised basis, the KPI now stands at €733m and 19% above the 2018 figure. Adjusted EBITDA (including GCP contribution), which reflects recurring operational profit excluding capital gains and revaluation effects, rose 27% Y/Y to €185m. FFO 1 was close to our estimate and climbed 23% Y/Y to €121m in Q2/19 equating to FFOPS 1 of €0.11 (+5%).

On a six month basis, the headline figures showed similar growth and the FFO 1 result was up 26% Y/Y to €239m. The company is thus tracking well towards its new guidance (table 4 overleaf). H1 FFO 1 commercial, recurring long term was reported at €195m vs €156m (+25%) in the prior year period. Including disposal gains, FFO 2 hit €288m in H1.

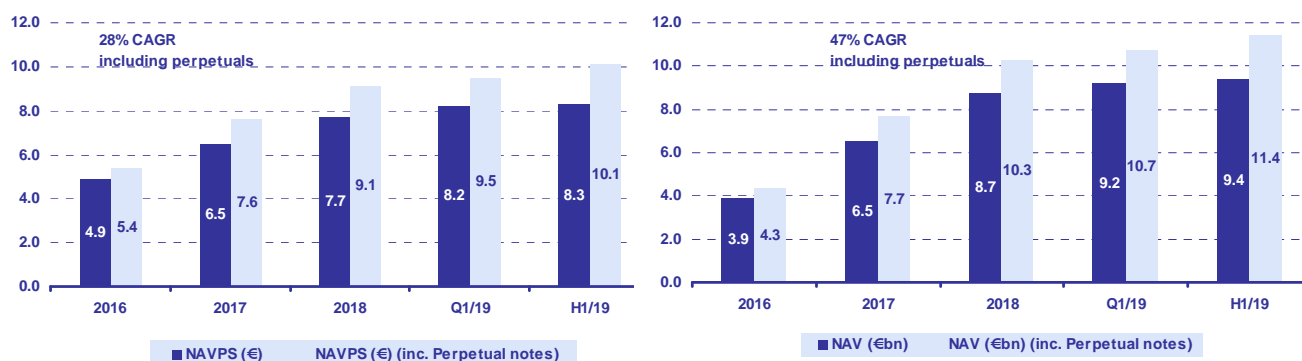
Property revaluations and capital gains lagged behind last year's strong pace but nearly doubled Q/Q. The KPI totalled €439m for the quarter (Q2/18: €553m) and €679m in H1. Revaluations were driven by operational measures (80%) and yield compression (20%). Management noted on the call that some 40% of assets were assessed in H1.

Table 2: Commercial properties as of 30 June

	Investment properties (€m)	Rentable area ('000 m ²)	EPRA vacancy	Annualised net rent (€m)	In-place rent (€/m ²)	Value (€/m ²)	Rental yield	WALT
Office	8,503	3,382	10.6%	390	10.2	2,514	4.6%	4.5
Hotel	4,416	1,365	5.4%	213	13.4	3,236	4.8%	15.4
Logistics/Wholesale	1,290	1,399	5.2%	73	4.6	923	5.6%	6.2
Retail	953	464	8.8%	57	10.3	2,053	5.9%	6.2
Land for development & rights	1,051							
Total	16,213	6,610	8.5%	733	9.7	2,294	5.1%	8.0

Source: First Berlin Equity Research; Aroundtown

H1 acquisitions translated into a 10% Q/Q rise in commercial GAV (gross asset value) to €16.2bn. Investment properties are now up 14% YTD, while GAV / m² has climbed 6.3% this year to 2,294 and moved 3.6% higher incrementally.


Figure 1: EPRA NAVPS and EPRA NAV developments


Source: First Berlin Equity Research; Aroundtown

As of 30 June, EPRA NAV totalled €9.4bn (€8.3 / share) compared to €8.7bn at year end 2018 (€7.7 / share, +8%) and €9.2bn (€8.2 / share) at the end of Q1. NAV growth owes predominantly to the strong net profit of €969m recorded for the six month period. Including the perpetual notes, which are classified as equity under IFRS, this KPI stood at €11.4bn or €10.1 / share (+11%).

Table 3: Financial highlights

All figures in EURm	6M/19	2018	variance
Cash and liquid assets	2,416	1,601	51%
Investment property	16,213	14,174	14%
Total assets	22,667	19,041	19%
Net debt	6,755	5,871	15%
Total equity	11,453	9,944	15%
Total equity (pro-forma) ¹	12,554	9,944	26%
Equity ratio	51%	52%	-
Equity ratio (pro-forma) ¹	53%	52%	-
EPRA NAV	9,408	8,742	8%
EPRA NAV inc perpetual notes	11,382	10,290	11%
Loan-to-Value (LTV)	36%	35%	-

¹ Including July 2019 capital increase

Source: First Berlin Equity Research; Aroundtown

Financial coffers are loaded after summer financings The debt structure featured an LTV of 36% alongside a 1.7% (Q1/18: 1.8%) average cost of debt (CoD) with a 7.5 year maturity, which still gives AT the longest maturity among the German commercial landlords. CoD was lower Q/Q thanks to the optimised debt portfolio, which benefited from a flurry of new issuances (> €2.9bn) this summer (see note of 25 July 2019) and allowed AT to retired around €350m in bonds with higher coupons. The interest coverage ratio (ICR) and unencumbered asset ratio stood at 4.5x and 74% respectively at the end of Q2. We also note there are no significant (>€0.5bn) maturities until 2023 in the debt portfolio. Management confirmed a €1bn pipeline of mainly office and hotel properties in AT's core markets and ample financial firepower to execute, while keeping the LTV below 45%.

**Table 4: Increased guidance based on current portfolio and signed deals**

	Unit	H1 annualised	2019 Guidance	2019E
FFO 1	€m	472	490	490
FFOPS 1	€	0.42	0.41 -0.42 ¹	0.42
DPS (65% of FFO)	€	0.27	0.27	0.27
LFL net rent growth	%	4.4	~4%	4.4
LTV	%	36	< 45	35

¹ based on current portfolio, signed deals

Source: First Berlin Equity Research; Aroundtown

Increasing estimates on uptick in guidance Management raised FFO 1 guidance ~5% to €490m (old: €460m to €470m) based on improved visibility on the impact of the new acquisitions. Management now expect initial contributions in H2 with full impact in 2020. We have adopted these assumptions into our forecast after previously modelling for initial contributions in 2020.

Table 5: Changes to forecasts and price target

	old	new	revision	upside	dividend yield	total upside
Price target (€)	9.5	9.8	3.2%	32.4%	3.7%	36.1%
	2019E			2020E		
in €m	Old	New	Variance	Old	New	Variance
Rental income	910	925	1.6%	1,011	1,027	1.5%
Net rent (NRI)	771	783	1.6%	857	869	1.5%
Adj. EBITDA, commercial	615	625	1.7%	684	694	1.5%
margin	80%	80%	-	80%	80%	-
FFO 1, commercial portfolio	411	421	2.4%	471	480	2.0%
Margin	53%	4%	-	55%	55%	-
FFO 1	481	490	1.9%	545	554	1.7%
Margin	62%	63%	-	64%	64%	-
FFOPS 1 (€)	0.41	0.42	1.9%	0.45	0.45	1.7%

Source: First Berlin Equity Research estimates



ECONOMIC PROFIT MODEL

External growth remains robust with +€2.5bn in signed deals YTD. And reversionary upside of 33% equates to some €975m in rental income of which ~80% should translate into FFO 1. This upside should allow the commercial landlord to grow cash earnings and reward investors with attractive FFO 1 and dividend yields for years to come. We maintain our Buy rating and raise our PT to €9.8 (old: €9.5).

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	625	694	739	786	794
(+) Revaluations	830	739	605	527	238
(+) Investment income (GCP)	116	123	130	137	138
(-) Tax expense	56	61	65	69	70
NOPAT	1,515	1,494	1,410	1,381	1,101
Total assets	23,003	24,380	25,698	26,697	26,697
(-) Current liabilities	724	791	836	866	866
(+) Current financial debt	27	27	27	27	27
(-) Cash	1,792	1,139	976	972	972
(+) Deferred taxes	1,012	1,209	1,393	1,572	1,572
Capital employed (CE)	21,525	23,686	25,306	26,458	26,458
Average CE	19,775	22,606	24,496	25,882	26,458
ROCE	7.7%	6.6%	5.8%	5.3%	4.2%
WACC	4.0%	4.0%	4.0%	4.0%	4.0%
ROCE-WACC	3.7%	2.6%	1.8%	1.4%	0.2%
Economic Profit	729	596	436	352	49
NPV	720	566	398	309	1,465
Fair value calculation					
Total return	3,458				
(+) NAV ¹ (2018)	8,742				
(-) Dividend to be paid	264				
Equity value	11,937				
Diluted SO (m)	1,224				
Fair value per share (€)	9.80				
Target price (€)					
Target price (€)	9.80				
Share price (€)	7.40				
Return potential	32.4%				
Dividend yield	3.7%				
Total return potential	36.1%				



INCOME STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net rent	233	449	633	783	869	925
Operating and other income	40	78	114	142	157	167
Rental and operating income (RI)	274	527	747	925	1,027	1,092
Capital gains, property revaluations & other	720	1,327	1,536	985	745	611
Result from equity-accounted investees	197	228	252	199	162	164
Property OpEx	-75	-147	-219	-270	-300	-319
Administration & other OpEx	-8	-15	-23	-28	-31	-32
Operating income (EBIT)	1,107	1,920	2,294	1,811	1,603	1,517
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	1,665	1,456	1,364
Tax expense	-20	-34	-44	-56	-62	-66
Deferred tax	-103	-263	-213	-233	-204	-191
Tax result	-123	-297	-257	-289	-266	-257
Comprehensive net income	901	1,539	1,828	1,376	1,191	1,108
Minority interests	169	228	161	138	119	111
Perpetual notes	4	29	46	53	60	60
Net income to owners	728	1,283	1,620	1,186	1,012	937
Basic EPS (€)	1.11	1.56	1.54	1.01	0.83	0.77
Diluted EPS (€)	0.87	1.35	1.49	1.01	0.83	0.77
Adjusted EBITDA commercial	195	339	497	625	694	740
Ratios						
Adj EBITDA commercial margin	83.4%	81.7%	80.9%	79.8%	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%	23.8%	11.0%	6.4%
Operating income	6.3%	73.5%	19.4%	-21.0%	-11.5%	-5.4%
Adjusted EBITDA	109.8%	74.3%	46.5%	25.8%	11.1%	6.6%
Net income/ loss	6.0%	76.1%	26.3%	-26.8%	-14.6%	-7.4%
Funds from Operations (FFO)						
Adjusted EBITDA commercial portfolio	195	339	497	625	694	740
Finance expense	-47	-70	-115	-147	-147	-153
Tax expense	-20	-34	-44	-56	-62	-66
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	421	480	516
Adjustment for GCP contribution	46	56	67	69	74	79
FFO 1	166	293	406	490	554	595



BALANCE SHEET

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Assets						
Current assets, total	1,100	1,523	2,102	2,716	2,095	1,948
Cash and cash equivalents	641	736	1,243	1,792	1,133	962
Short-term investments	181	99	366	366	366	366
Receivables	111	163	277	342	380	404
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	20,442	22,451	23,920
Property, plant & equipment	23	26	33	34	34	35
Investment properties	5,016	9,804	14,174	17,496	19,379	20,724
Equity accounted investees	1,557	1,906	2,215	2,361	2,465	2,568
Other LT assets	393	512	517	552	573	593
Total assets	8,089	13,770	19,041	23,158	24,546	25,868
Shareholders' equity & debt						
Current liabilities, total	349	566	606	724	791	837
Short-term debt	160	17	27	27	27	27
Accounts payable	108	267	451	564	626	666
Provisions & other current liabilities	81	282	128	133	138	144
Long-term liabilities, total	3,799	5,955	8,491	10,327	10,775	11,305
Long-term debt	3,385	5,078	7,444	9,042	9,281	9,615
Deferred tax liabilities	366	752	882	1,115	1,319	1,510
Other LT liabilities	48	125	164	169	175	180
Minority interests	373	674	567	705	824	935
Shareholders' equity	3,568	6,576	9,377	11,403	12,156	12,792
Total consolidated equity and debt	8,089	13,770	19,041	23,158	24,546	25,868
Ratios						
ICR (x)	5.7	5.4	4.7	4.9	5.4	5.5
Equity ratio	48.7%	52.6%	52.2%	52.3%	52.9%	53.1%
EPRA NAV ¹	3,871	6,483	8,742	10,503	11,457	12,282
EPRA NAVPS ¹ (€)	4.9	6.5	7.7	8.6	9.4	10.0
Net debt	2,737	4,400	5,871	6,906	7,805	8,308
Return on equity (ROE)	25.3%	23.4%	19.5%	12.1%	9.8%	8.7%
Loan-to-value (LTV)	39.3%	35.9%	35.3%	34.3%	35.3%	35.2%
Interest coverage ratio (x)	5.7	5.4	4.7	4.9	5.4	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	1,376	1,191	1,108
Depreciation & amortisation	2	2	2	2	2	2
Capital gains, property revaluations & other	-720	-1,327	-1,536	-985	-745	-611
Profit share from equity accounted investees	-197	-228	-252	-199	-162	-164
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	289	266	257
Operating cash flow	195	369	510	629	698	744
Changes in working capital	-17	-13	-39	26	17	10
Provisions for other liabilities	-1	-2	-3	2	2	2
Dividend received	18	41	51	54	57	61
Tax paid	-16	-33	-46	-56	-62	-66
Net operating cash flow	179	362	473	655	712	751
CapEx/ intangibles	-7	-9	-5	-3	-3	-3
Disposal/ investment in investment properties, net	-1,051	-615	-915	-2,337	-1,137	-735
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	-1,145	-742
Debt financing, net	1,786	1,165	2,588	1,598	239	333
Equity financing, net	741	1,561	953	1,051	0	0
Dividends paid	-34	-155	-226	-264	-319	-360
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	-227	-180
Net cash flows	523	100	501	549	-659	-171
Assets held for sale - cash	-2	-5	6	0	0	0
Cash, start of the year	121	641	736	1,243	1,792	1,133
Cash, end of the year	641	736	1,243	1,792	1,133	962
Adjusted EBITDA commercial/share (€)	0.30	0.41	0.47	0.53	0.57	0.60
FFO 1	166	293	406	490	554	595
FFOPS 1 (€)	0.25	0.36	0.39	0.42	0.45	0.49
Y/Y Growth						
EBITDA/share	75.7%	38.6%	14.4%	12.6%	6.8%	6.6%
FFO 1	76.1%	76.9%	38.5%	20.8%	13.1%	7.4%
FFOPS 1 (€)	47.5%	40.7%	8.1%	8.1%	8.7%	7.4%

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...25	↓	↓	↓	↓
26	29 May 2019	€7.38	Buy	€9.50
27	4 July 2019	€7.52	Buy	€9.50
28	25 July 2019	€7.25	Buy	€9.50
29	Today	€7.40	Buy	€9.80

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