

Aroundtown SA

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

TLG
 Merger Offer

RATING
BUY

PRICE TARGET
€ 9.80

Return Potential 32.2%
 Risk Rating Medium

PROPOSED MERGER WITH TLG IMMOBILIEN AG TAKING SHAPE

Aroundtown (AT) and commercial rival TLG Immobilien AG (TLG) have agreed on non-binding terms for a potential merger. AT will make an offer through a voluntary public takeover to all TLG shareholders. The exchange ratio will be based on the respective NAVPS values of Aroundtown and TLG. The combination would result in a commercial real estate powerhouse that would rank as Europe's top office-focused landlord and third largest real estate operator overall. The deal could also pave the way for a S&P credit rating upgrade to A-, which would allow management to retire expensive debt and issue new debt at lower coupons. This should help promote good FFOPS and NAVPS accretion. Our rating is Buy with a €9.8 price target.

Proposed offer makes more sense In September, AT shares traded lower on the news that TLG had bought a stake in AT from the company's main shareholder, Yakir Gabay (see note of 5 September 2019). Investors were uneasy that the deal was an omen that the Aroundtown linchpin was exiting the property market. Plus, concerns arose about the price of a potential future deal that could somehow disadvantage the remaining AT shareholders relative to the €8.3 per share paid to Mr Gabay. The announced non-binding terms will use NAVPS as a basis for the offer to TLG shareholders. Moreover, Yakir Gabay will remain vice chairman of the AT Advisory Board, which should likewise comfort worried investors.

Plenty of reasons to be positive A business combination would result in a portfolio of ~€23.8bn (figure 1 overleaf) and create a pan-European commercial real estate powerhouse. A successful merger would: (1) bolster assets at the sweet spot of the commercial market (office and hotel) and expand the metropolitan footprints—especially Berlin; (2) secure operational and financing cost synergies; (3) boost share liquidity; (4) box out rivals from potential market consolidation; and (5) unlock greater . . . (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)	268.23	429.30	606.04	741.08	817.14	869.80
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	0.82	0.86
EPRA NAV ¹ (€m)	4,349.05	7,656.28	10,290.10	13,054.52	14,009.13	14,833.85
NAVPS ¹ (€m)	5.40	7.63	9.11	10.67	11.45	12.12
DPS (€)	0.16	0.23	0.20	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	2,716.97	2,057.98	1,887.34

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.

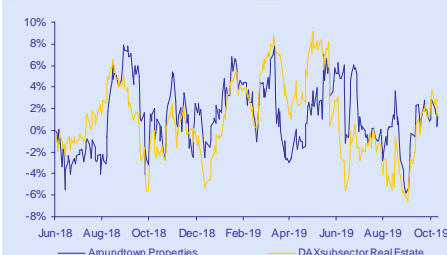
MARKET DATA

As of 25 Oct 2019

Closing Price	€ 7.41
Shares outstanding	1,224.00m
Market Capitalisation	€ 9074.74m
52-week Range	€ 6.88 / 7.87
Avg. Volume (12 Months)	3,349,988

Multiples	2018	2019E	2020E
P/FFO 1	19.2	17.8	16.4
P/EPRA NAV	0.8	0.7	0.6
FFO 1 Yield	5.2	5.6	6.1
Div. Yield	2.7%	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

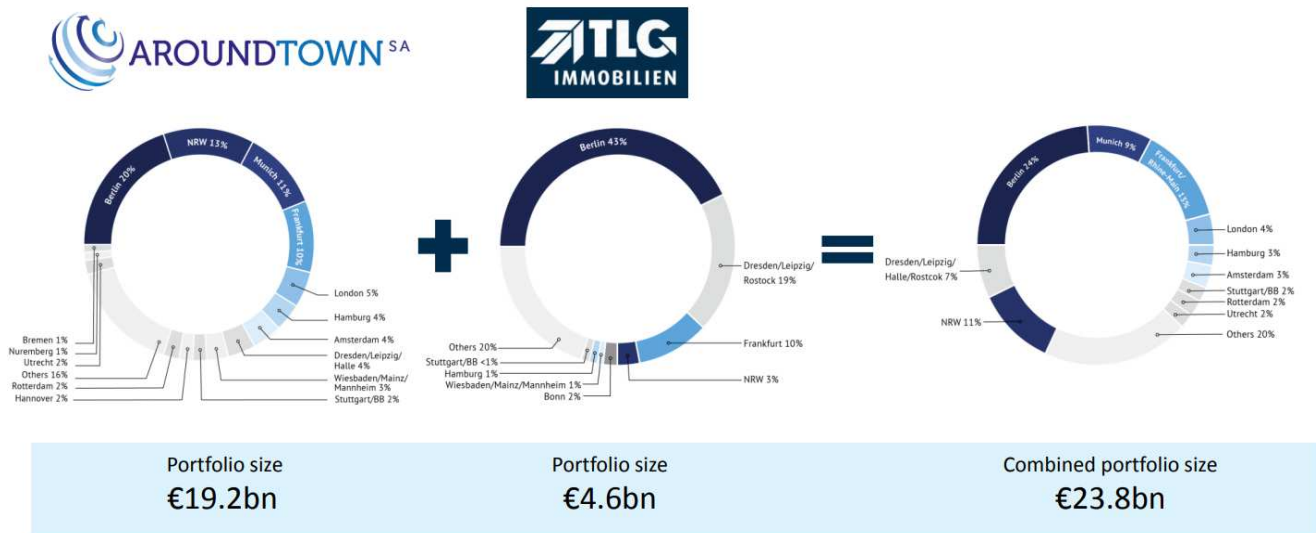
TLG Immobilien	15.0%
Avisco Group	12.0%
Blackrock	5.1%
Free Float	67.9%



. . . development potential—the combined pipelines including TLG’s project on Berlin’s Alexanderplatz would approach €1.9bn (AT: €1.1bn, TLG€0.8bn). The deal also would open the door for DAX inclusion—AT is currently an MDAX constituent—and enhance the chances for credit rating upgrades. AT management remain highly focused on the coveted A- rating (current: BBB+) from S&P.

Good synergies to exploit and drive FFOPS accretion Thanks to similar business models and portfolios, we expect a number of synergies to promote operational cost savings. The merger will also allow the emergent landlord to refinance expense debt and help shave some 100bps off the current 1.7% cost of debt. Plus, a ratings upgrade would allow the new company to secure future debt at rock bottom levels (<1%). And the new company would be able to accelerate development activities to provide a further earnings boost. The combined effects should result in attractive FFOPS and NAVPS accretion to reward shareholders of both companies. However, until details of the merger are ironed out in the coming months, it is too early to quantify the actual upside.

Figure 1: Combined portfolio approaches €24bn



Source: First Berlin Equity Research; Aroundtown; TLG

Next steps in the process The companies are working towards a Section 10 announcement by year end. Management have already hinted that the emergent company would be rebranded and headquartered in Berlin, Germany. AT also outlined the proposed board structures in a deck published today on the potential merger. Should the deal go through, only Unibail and Vonovia would rank higher in terms of GAV (gross asset value) on the European landscape.



VALUATION MODEL

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	625	694	740	787	795
(+) Revaluations	985	745	611	532	242
(+) Investment income (GCP)	116	123	130	137	138
(-) Tax expense	56	61	65	69	70
NOPAT	1,670	1,501	1,415	1,386	1,105
Total assets	23,712	25,100	26,422	27,426	27,426
(-) Current liabilities	724	791	837	866	866
(+) Current financial debt	27	27	27	27	27
(-) Cash	2,346	1,687	1,516	1,508	1,508
(+) Deferred taxes	1,033	1,232	1,416	1,596	1,596
Capital employed (CE)	21,703	23,881	25,513	26,674	26,674
Average CE	19,864	22,792	24,697	26,094	26,674
ROCE	8.4%	6.6%	5.7%	5.3%	4.1%
WACC	4.0%	4.0%	4.0%	4.0%	4.0%
ROCE-WACC	4.4%	2.6%	1.8%	1.3%	0.2%
Economic Profit	881	595	434	349	45
NPV	875	569	399	308	1,338
Fair value calculation					
Total return	3,488				
(+) NAV ¹ (2018)	8,742				
(-) Dividend to be paid	210				
Equity value	12,021				
Diluted SO (m)	1,224				
Fair value per share (€)	9.80				
Target price (€)	9.80				
Share price (€)	7.41				
Return potential	32.2%				
Dividend yield	3.7%				
Total return potential	35.8%				

¹ excludes perpetuals



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	51	73	73
Net income to owners	728	1,283	1,620	1,188	999	924
Basic EPS (€)	1.11	1.56	1.54	1.01	0.82	0.76
Diluted EPS (€)	0.87	1.35	1.49	1.01	0.82	0.76
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%	-26.7%	-15.9%	-7.5%
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	3,270	2,649	2,502
Cash and cash equivalents	641	736	1,243	2,346	1,687	1,516
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	23,712	25,100	26,422
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	11,957	12,710	13,346
Total consolidated equity and debt	8,089	13,770	19,041	23,712	25,100	26,422
Ratios						
ICR (x)	5.7	5.4	4.7	4.9	5.4	5.5
Equity ratio	48.7%	52.6%	52.2%	53.4%	53.9%	54.0%
EPRA NAV ¹	3,871	6,483	8,742	10,557	11,511	12,336
EPRA NAVPS ¹ (€)	4.9	6.5	7.7	8.6	9.4	10.1
Net debt	2,737	4,400	5,871	6,352	7,251	7,754
Return on equity (ROE)	25.3%	23.4%	19.5%	11.5%	9.4%	8.3%
Loan-to-value (LTV)	39.3%	35.9%	35.3%	31.5%	32.8%	32.9%

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	1,551	0	0
Dividends paid	-34	-155	-226	-210	-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	2,792	-227	-180
Net cash flows	523	100	501	1,103	-659	-171
Assets held for sale - cash	-2	-5	6	0	0	0
Cash, start of the year	121	641	736	1,243	2,346	1,687
Cash, end of the year	641	736	1,243	2,346	1,687	1,516
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 September 2015	€3.40	Buy	€5.70
2...27	↓	↓	↓	↓
28	25 July 2019	€7.25	Buy	€9.50
29	29 August 2019	€7.40	Buy	€9.80
30	5 September 2019	€7.34	Buy	€9.80
31	Today	€7.41	Buy	€9.80

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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:

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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