

Aroundtown SA

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

Q3 / 19
 Results

RATING
BUY

PRICE TARGET
€ 10.00

Return Potential 30.7%
 Risk Rating Medium

ACQUISITIONS TOP €3BN: FFOPS GUIDANCE UPPED TO €0.43

Q3 headline figures were close to our forecasts and showed strong annualised growth led by net rental income (+19%) and FFO 1 (+22%). Commercial assets reached €17.9bn after some €1.5bn acquisitions in Q3. Including signed deals, acquisitions will top €3bn for the third consecutive year. The good 9M performance translated into 10% Y/Y FFOPS 1 growth and a 10% YTD NAVPS increase (excluding perpetuals). Management raised FFO guidance for the second time this year to >€500m (old: ~€490m) on the good operational performance and higher impact of new properties. Our price target moves to €10 (old: €9.8) on the improved outlook. We stick to our Buy rating.

FFO guidance upped on higher growth and operational upside YTD acquisitions including signed deals now top €3.1bn and mainly include hotel and office assets. Although their full impact will not occur until 2020, management now expect the new assets to have some effect this year. This factor alongside good operational momentum accounts for the 2% increase in FFO 1 guidance to ~€500m. FFOPS guidance also edges higher to €0.43 vs previous €0.41 - €0.42. Despite this summer's equity raise, FFOPS is now set to climb ~10% Y/Y. We move FBe 2019 FFO 1 to €500m (old: €490m) and FFOPS to €0.43 (old: €0.42) to reflect higher portfolio growth and better than expected operational improvements.

TLG merger on track to close in Q1/20 Today's earnings call gave little new insight on the planned TLG merger (see our note of 21 November). AT provided a detailed strategic and financial overview in a recent merger presentation and expects the deal to be accretive for all shareholders from year 1 (FFOPS +25%). The business combination will result in a portfolio of ~€24bn and create a pan-European commercial real estate champion. Management hinted on today's call that potential DAX inclusion could occur within one year post merger. They noted the company is close in terms of free float and trading volume requirements—ranking 35th on the latter metric. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Net rent (€m)	233.38	448.98	633.00	750.45	848.58	903.90
Adj. EBITDA (€m)	268.23	429.30	606.04	746.5	832.44	886.80
Net income (€m)	901.09	1,539.00	1,827.80	1,510.99	1,223.21	1,138.19
EPS (diluted) (€)	0.88	1.35	1.49	1.12	0.85	0.78
EPRA NAV ¹ (€m)	4,349.05	7,656.28	10,290.10	13,197.70	14,180.48	15,028.04
NAVPS ¹ (€m)	5.40	7.63	9.11	10.79	11.59	12.28
DPS (€)	0.16	0.23	0.20	0.28	0.30	0.33
FFO 1 (€m)	165.63	293.00	405.74	499.91	569.59	612.55
FFOPS 1 (€)	0.25	0.36	0.39	0.43	0.47	0.50
Liquid assets (€m)	833.44	841.60	1,599.50	2,287.88	1,619.94	1,426.37

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.

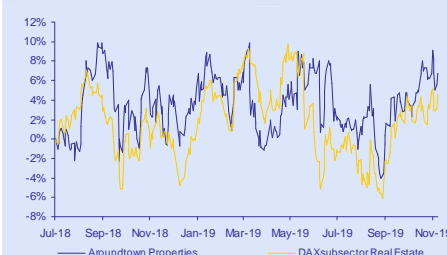
MARKET DATA

As of 26 Nov 2019

Closing Price	€ 7.65
Shares outstanding	1224.00m
Market Capitalisation	€ 9363.60m
52-week Range	€ 6.88 / 7.87
Avg. Volume (12 Months)	3,255,821

Multiples	2018	2019E	2020E
P/FFO 1	19.8	18.0	16.4
P/EPRA NAV	0.8	0.7	0.7
FFO 1 Yield	5.0%	5.6%	6.1%
Div. Yield	2.6%	3.6%	4.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2019

Liquid Assets	€ 3,137.80m
Current Assets	€ 3,704.00m
EPRA NAV ¹	€ 12,827.00m
Investment properties	€ 17,938.10m
Current Liabilities	€ 802.80m
Total Equity	€ 13,034.00m

¹ including perpetual notes

SHAREHOLDERS

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



LFL remains north of 4% Both the top line and earnings showed solid Q3 performances led by a 28% Y/Y rise in 'adjusted EBITDA commercial, recurring long-term'. This was spurred by a continued strong like-for-like (LFL) performance. As of Q3, AT realised total LFL rental growth of 4.3% comprising 2.4% in-place rent and 1.9% occupancy increases. This KPI was driven by Berlin (>6%) and Hamburg, Dresden as well as 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; 14% of overall AT portfolio), reported 3.6% LFL growth (3.0% in-place rent; 0.6% occupancy) in Q3.

Table 1: Nine month results vs prior year and FBe

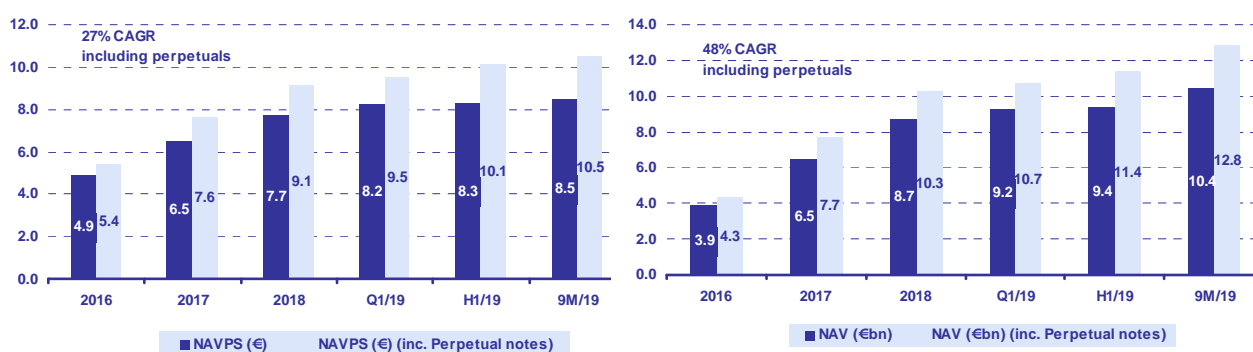
All figures in EURm	Q3/19	Q3/19E	variance	Q3/18	variance	9M/19	9M/18	variance
Recurring LT net rental income	193	187	3.4%	162	19%	548	440	25%
Net rental income	196	185	5.9%	165	19%	555	456	22%
Adjusted EBITDA commercial, recurring LT	161	155	3.7%	133	21%	459	360	28%
Margin	83%	83%	-	82%	-	84%	82%	-
Adjusted EBITDA	194	182	6.6%	160	21%	557	440	27%
FFO 1	132	126	5.0%	108	22%	371	297	25%
FFOPS 1 (€)	0.11	0.10	5.0%	0.10	10%	0.32	0.29	10%

Source: First Berlin Equity Research; Aroundtown

Recurring LT net rental income climbed 19% Y/Y to €193m in Q3. On an annualised basis, the KPI now stands at €808m and 31% above the 2018 figure. Adjusted EBITDA (including GCP contribution), which reflects recurring operational profit excluding capital gains and revaluation effects, rose 21% Y/Y to €194m. FFO 1 was close to our estimate and climbed 22% Y/Y to €132m in Q3/19 equating to FFOPS 1 of €0.11 (+10%).

On a nine month basis, the headline figures showed similar growth and the FFO 1 result was up 25% Y/Y to €371m. 9M 'FFO 1 commercial, recurring long term' was reported at €300m vs €247m (+21%) in the prior year period. Including disposal gains, FFO 2 hit €421m in 9M.

Figure 1: EPRA NAVPS and EPRA NAV developments



Source: First Berlin Equity Research; Aroundtown

As of 30 September, EPRA NAV totalled €10.4bn (€8.5 / share) compared to €8.7bn at year end 2018 (€7.7 / share, +10%) and €9.4bn (€8.3 / share) at the end of Q2. NAV growth owes predominantly to the strong net profit of €1.5bn recorded for the nine month period. Including the perpetual notes, which are classified as equity under IFRS, this KPI stood at €12.8bn or €10.5 / share (+15% YTD).

**Table 2: Financial highlights**

All figures in EURm	9M/19	2018	variance
Cash and liquid assets	3,142	1,601	96%
Investment property	17,938	14,174	27%
Total assets	24,992	19,041	31%
Net debt	6,906	5,871	18%
Total equity	13,034	9,944	31%
Equity ratio	52%	52%	-
EPRA NAV	10,361	8,742	19%
EPRA NAV inc perpetual notes	12,827	10,290	25%
Loan-to-Value (LTV)	34%	35%	-

Source: First Berlin Equity Research; Aroundtown

GAV / m² north of 2,400 9M acquisitions translated into a 10% Q/Q rise in commercial GAV (gross asset value) to €17.9bn. Investment properties are now up 26% YTD, while GAV / m² has climbed 11% this year to 2,401 and moved 4.7% higher incrementally.

Table 3: Commercial properties as of 30 September

	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	8,676	3,389	10.7%	397	10.3	2,560	4.6%	4.5
Hotel	5,821	1,769	4.7%	287	13.9	3,290	4.9%	14.8
Logistics/Wholesale	1,276	1,364	5.2%	71	4.6	936	5.6%	6.1
Retail	906	424	8.7%	53	10.6	2,135	5.8%	6.2
Land for development & rights	1,259							
Total	17,938	6,946	8.0%	808	10.2	2,401	4.8%	8.4

Source: First Berlin Equity Research; Aroundtown

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

	Unit	New guidance	Old guidance	2019E
FFO 1	€m	>500	>490	500
FFOPS 1	€	0.43	0.41 -0.42 ¹	0.43
DPS (65% of FFO)	€	0.28	0.27	0.28
LFL net rent growth	%	>4	~4	4.2
LTV	%	< 45	< 45	33

¹ based on current portfolio, signed deals

Source: First Berlin Equity Research; Aroundtown

Raising price target on guidance uptick Management raised FFO 1 guidance ~2% to >€500m (old: ~€490m) based on improved visibility on the impact of the new acquisitions and operational upside. We have adopted these assumptions into our forecast, which result in a €10 price target (old: €9.8)

Table 5: Changes to forecasts and price target

	old	new	revision	upside	dividend yield	total upside
Price target (€)	9.8	10.0	2.0%	30.7%	3.6%	34.3%
in €m		2019E		2020E		
	Old	New	Variance	Old	New	Variance
Net rent (NRI)	746	750	0.6%	831	849	2.1%
Adj. EBITDA, commercial margin	625	630	0.8%	694	709	2.2%
FFO 1 Margin	490	500	2.0%	554	570	2.8%
FFOPS 1 (€)	0.42	0.43	2.0%	0.45	0.47	2.8%

Source: First Berlin Equity Research estimates



VALUATION MODEL

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	630	709	757	797	805
(+) Revaluations	1,132	768	629	548	263
(+) Investment income (GCP)	116	123	130	137	138
(-) Tax expense	56	62	67	70	71
NOPAT	1,822	1,538	1,450	1,411	1,135
Total assets	23,801	25,243	26,583	27,611	27,611
(-) Current liabilities	656	732	775	812	812
(+) Current financial debt	27	27	27	27	27
(-) Cash	1,917	1,249	1,055	1,046	1,046
(+) Deferred taxes	1,055	1,259	1,449	1,632	1,632
Capital employed (CE)	22,310	24,548	26,230	27,413	27,413
Average CE	20,168	23,429	25,389	26,821	27,413
ROCE	9.0%	6.6%	5.7%	5.3%	4.1%
WACC	4.0%	4.0%	4.0%	4.0%	4.0%
ROCE-WACC	5.1%	2.6%	1.7%	1.3%	0.2%
Economic Profit	1,021	607	441	345	45
NPV	1,017	581	406	306	1,368
Fair value calculation					
Total return	3,679				
(+) NAV ¹ (2018)	8,742				
(-) Dividend paid	210				
Equity value	12,211				
Diluted SO (m)	1,224				
Fair value per share (€)	10.00				
Target price (€)					
Target price (€)	10.00				
Share price (€)	7.65				
Return potential	30.7%				
Dividend yield	3.6%				
Total return potential	34.3%				



INCOME STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net rent	233	449	633	750	849	904
Operating and other income	40	78	114	136	153	163
Rental and operating income (RI)	274	527	747	886	1,002	1,067
Capital gains, property revaluations & other	720	1,327	1,536	1,132	768	629
Result from equity-accounted investees	197	228	252	199	162	164
Property OpEx	-75	-147	-219	-227	-260	-277
Administration & other OpEx	-8	-15	-23	-27	-30	-31
Operating income (EBIT)	1,107	1,920	2,294	1,964	1,641	1,552
Net financial result	-47	-70	-115	-144	-146	-151
Other financial expenses	-36	-15	-94	0	0	0
Pre-tax income (EBT)	1,024	1,836	2,085	1,819	1,495	1,401
Tax expense	-20	-34	-44	-54	-63	-67
Deferred tax	-103	-263	-213	-255	-209	-196
Tax result	-123	-297	-257	-308	-272	-263
Comprehensive net income	901	1,539	1,828	1,511	1,223	1,138
Minority interests	169	228	161	151	122	114
Perpetual notes	4	29	46	51	73	73
Net income to owners	728	1,283	1,620	1,309	1,028	952
Basic EPS (€)	1.11	1.56	1.54	1.11	0.84	0.78
Diluted EPS (€)	0.87	1.35	1.49	1.12	0.85	0.78
Adjusted EBITDA commercial	195	339	497	630	709	757
Ratios						
Adj EBITDA commercial margin	83.4%	81.7%	80.9%	84.0%	83.6%	83.7%
Tax rate	7.4%	7.8%	7.3%	7.2%	7.5%	7.5%
Expenses as % of revenues						
Property OpEx	27.5%	27.9%	29.3%	25.6%	26.0%	26.0%
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%	18.6%	13.1%	6.5%
Operating income	6.3%	73.5%	19.4%	-14.4%	-16.4%	-5.4%
Adjusted EBITDA	109.8%	74.3%	46.5%	26.9%	12.5%	6.7%
Net income/ loss	6.0%	76.1%	26.3%	-19.2%	-21.5%	-7.4%
Funds from Operations (FFO)						
Adjusted EBITDA commercial portfolio	195	339	497	630	709	757
Finance expense	-47	-70	-115	-144	-146	-151
Tax expense	-20	-34	-44	-54	-63	-67
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	431	496	533
Adjustment for GCP contribution	46	56	67	69	74	79
FFO 1	166	293	406	500	570	613



BALANCE SHEET

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Assets						
Current assets, total	1,100	1,523	2,102	2,827	2,201	2,032
Cash and cash equivalents	641	736	1,243	1,917	1,249	1,055
Short-term investments	181	99	366	366	366	366
Receivables	111	163	277	328	371	395
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	20,975	23,041	24,551
Property, plant & equipment	23	26	33	34	34	35
Investment properties	5,016	9,804	14,174	18,027	19,966	21,353
Equity accounted investees	1,557	1,906	2,215	2,361	2,465	2,568
Other LT assets	393	512	517	554	575	595
Total assets	8,089	13,770	19,041	23,801	25,243	26,583
Shareholders' equity & debt						
Current liabilities, total	349	566	606	656	732	775
Short-term debt	160	17	27	27	27	27
Accounts payable	108	267	451	496	567	604
Provisions & other current liabilities	81	282	128	133	138	144
Long-term liabilities, total	3,799	5,955	8,491	10,349	10,816	11,346
Long-term debt	3,385	5,078	7,444	9,042	9,295	9,624
Deferred tax liabilities	366	752	882	1,137	1,346	1,543
Other LT liabilities	48	125	164	169	175	180
Minority interests	373	674	567	718	841	954
Shareholders' equity	3,568	6,576	9,377	12,078	12,854	13,508
Total consolidated equity and debt	8,089	13,770	19,041	23,801	25,243	26,583
Ratios						
ICR (x)	5.7	5.4	4.7	5.0	5.5	5.7
Equity ratio	48.7%	52.6%	52.2%	53.8%	54.3%	54.4%
EPRA NAV ¹	3,871	6,483	8,742	10,700	11,683	12,530
EPRA NAVPS ¹ (€)	4.9	6.5	7.7	8.7	9.5	10.2
Net debt	2,737	4,400	5,871	6,782	7,702	8,224
Return on equity (ROE)	25.3%	23.4%	19.5%	12.5%	9.5%	8.4%
Loan-to-value (LTV)	39.3%	35.9%	35.3%	32.8%	33.9%	34.0%

¹ excludes perpetual notes



CASH FLOW STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net income	901	1,539	1,828	1,511	1,223	1,138
Depreciation & amortisation	2	2	2	2	2	2
Capital gains, property revaluations & other	-720	-1,327	-1,536	-1,132	-768	-629
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	144	146	151
Tax result	123	297	257	308	272	263
Operating cash flow	195	369	510	634	713	761
Changes in working capital	-17	-13	-39	-29	20	7
Provisions for other liabilities	-1	-2	-3	2	2	2
Dividend received	18	41	51	54	57	61
Tax paid	-16	-33	-46	-54	-63	-67
Net operating cash flow	179	362	473	607	729	764
CapEx/ intangibles	-7	-9	-5	-2	-3	-3
Disposal/ investment in investment properties, net	-1,051	-615	-915	-2,721	-1,172	-757
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	-2,728	-1,179	-765
Debt financing, net	1,786	1,165	2,588	1,598	253	328
Equity financing, net	741	1,561	953	1,551	0	0
Dividends paid	-34	-155	-226	-210	-325	-370
Other financing activities	-204	-13	-265	0	0	0
Net paid financing expenses	-45	-66	-97	-144	-146	-151
Cash flow from financing	2,244	2,492	2,953	2,795	-218	-193
Net cash flows	523	100	501	674	-668	-194
Assets held for sale - cash	-2	-5	6	0	0	0
Cash, start of the year	121	641	736	1,243	1,917	1,249
Cash, end of the year	641	736	1,243	1,917	1,249	1,055
Adjusted EBITDA commercial/share (€)	0.30	0.41	0.47	0.54	0.58	0.62
FFO 1	166	293	406	500	570	613
FFOPS 1 (€)	0.25	0.36	0.39	0.43	0.47	0.50
Y/Y Growth						
EBITDA/share	75.7%	38.6%	14.4%	13.6%	8.2%	6.7%
FFO 1	76.1%	76.9%	38.5%	23.2%	13.9%	7.5%
FFOPS 1 (€)	47.5%	40.7%	8.1%	10.3%	9.5%	7.5%

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...28	↓	↓	↓	↓
29	5 September 2019	€7.33	Buy	€9.80
30	28 October 2019	€7.41	Buy	€9.80
31	21 November 2019	€7.76	Buy	€9.80
32	Today	€7.65	Buy	€10.00

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

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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.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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

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