

Aroundtown SA

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

Update

RATING **BUY**
PRICE TARGET **€ 10.00**
 Return Potential 20.8%
 Risk Rating Medium

HIGH ACCEPTANCE RATE MAKES TLG MERGER A FORMALITY

Aroundtown SA (AT) announced results for the voluntary exchange offer for all outstanding shares in TLG Immobilien AG (TLG). A 59.4% acceptance level was achieved at the end of the initial acceptance period. This figure does not account for an additional 10.4% that is subject to the irrevocable agreement with Ouram Holding S.à.r.l. The exchange offer is no longer subject to any closing conditions since all conditions were satisfied at the time of expiration of the initial acceptance period. The results thus help pave the way for a merger that will forge a pan-European commercial real estate powerhouse. Our rating remains Buy with an unchanged €10 price target.

High acceptance rate shows good market support Aroundtown announced that at the end of the initial acceptance period on 21 January, 2020, shareholders of TLG had tendered a total of 66,537,413 TLG shares into the exchange offer by Aroundtown thereby endorsing the merger as a friendly and agreed share-for-share business combination of the two companies. TLG shareholders who have yet to accept the exchange offer now have the opportunity to tender their TLG shares during the additional acceptance period until midnight CET on 7 February 2020. Since there is no minimum acceptance threshold, a further increase in the acceptance rate would accelerate integration and extraction of the embedded synergies. Final results are slated for publication on 13 February 2020.

A lot to like about the merger We think the merger will be transformative for Aroundtown and TLG on multiple levels. The emergent company will boast: (1) a larger, more diversified portfolio; (2) a stronger capital structure with improved access to less expensive capital thanks to credit rating upside, (3) greater coverage of the RE value-chain with enhanced development opportunities, (4) and a bolstered governance structure. The merger will be FFOPS and NAVPS accretive from year one (see FB note of 21 November 2019). FFO of the emergent company is expected to rise by €110m to €139m p.a. within five years post merger. (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.

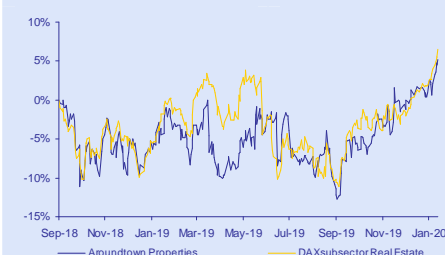
MARKET DATA

As of 24 Jan 2020

Closing Price	€ 8.28
Shares outstanding	1224.00m
Market Capitalisation	€ 10134.72m
52-week Range	€ 6.88 / 8.28
Avg. Volume (12 Months)	2,868,059

Multiples	2018	2019E	2020E
P/FFO 1	21.5	19.5	17.8
P/EPRA NAV	0.9	0.8	0.7
FFO 1 Yield	4.7%	5.1%	5.6%
Div. Yield	2.4%	3.3%	3.7%

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	€ 13034.00m

¹ including perpetual notes

SHAREHOLDERS

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



Bold corporate activity stands to supercharge operations Aroundtown has an impressive resumé in combining organic with external growth having rapidly built a stable of commercial assets that now approaches €18bn, thanks to >€14bn in acquisitions since YE14. We believe operations could have continued their current strong trajectory, but a TLG takeover now stands to supercharge operations and box out rivals from potential market consolidation. The business combination will result in a portfolio of ~€25bn and create a pan-European commercial real estate powerhouse with only Unibail and Vonovia ranking higher in terms of GAV (gross asset value).

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	1,024	585	409	308	1,377
Fair value calculation					
Total return	3,703				
(+) NAV ¹ (2018)	8,742				
(-) Dividend to be paid	210				
Equity value	12,235				
Diluted SO (m)	1,224				
Fair value per share (€)	10.00				
Target price (€)					
Target price (€)	10.00				
Share price (€)	8.28				
Return potential	20.8%				
Dividend yield	3.3%				
Total return potential	24.1%				

¹ excludes perpetuals



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...29	↓	↓	↓	↓
30	28 October 2019	€7.41	Buy	€9.80
31	21 November 2019	€7.76	Buy	€9.80
32	27 November 2019	€7.65	Buy	€10.00
33	Today	€8.28	Buy	€10.00

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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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