

Aroundtown SA

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

Update

RATING	BUY
PRICE TARGET	€ 10.00
Return Potential	27.9%
Risk Rating	Medium

STOCK WEAKNESS LOOKS OVERBLOWN GIVEN GOOD PROSPECTS

Aroundtown shares have retreated some 12% from recent highs during the market correction. We think this is overdone, given our unchanged positive views traced to core operations and TLG merger synergies. We also continue to see good market tailwinds particularly in the office space, which continues to show positive transaction data. Plus, we expect the 30% reversionary upside embedded in the portfolio to drive good organic growth. DAX inclusion also looks highly likely, although the timing remains tricky to predict. We reiterate our Buy rating and €10 price target.

Share price weakness looks overstated Global bourses have been routed on recessionary fears traced to covid-19, and AT1 shares have retreated some 12% from mid-February highs and traded as low as €7.22 on 28 February. We think this is overdone, and see little coronavirus risk. The company does not depend on any far-flung supply chains, nor are operations vulnerable to potential travel restrictions or staffing quarantines as covid-19 spreads. Hoteliers may suffer from higher bed vacancies in the short-term, but AT's hotel leases are fixed, long-term agreements with no link to a hotel's operational profits. We only regard a prolonged global economic slowdown as a threat to our growth assumptions. However, we expect covid-19 concerns to moderate anon, and for property stocks to bounce back quickly, given their good fundamentals and the highly supportive interest rate environment. In our view AT, also differentiates from other landlords with its portfolio diversification. The residential component (Grand City stake) is far less vulnerable to economic downturns.

Positive views unchanged as next chapter unfolds As written in the past, we believe the TLG merger stands to be transformative for Aroundtown 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 . . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Net rent (€m)	233.38	448.98	633.00	750.45	848.83	904.42
Adj. EBITDA (€m)	268.23	429.30	606.04	746.50	832.64	887.20
Net income (€m)	901.09	1,539.00	1,827.80	1,645.08	1,307.25	1,232.60
EPS (diluted) (€)	0.88	1.35	1.49	1.22	0.91	0.85
EPRA NAV ¹ (€m)	4,349.05	7,656.28	10,290.10	13,340.20	14,412.30	15,360.10
NAVPS ¹ (€m)	5.40	7.63	9.11	10.90	11.78	12.55
DPS (€)	0.16	0.23	0.25	0.28	0.30	0.33
FFO 1 (€m)	165.63	293.00	405.74	499.91	569.75	612.88
FFOPS 1 (€)	0.25	0.36	0.39	0.43	0.47	0.50
Liquid assets (€m)	833.44	841.60	1,599.50	2,287.25	1,613.03	1,409.21

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.

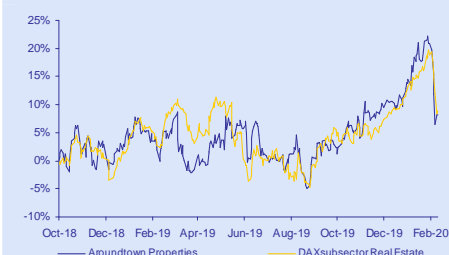
MARKET DATA

As of 03 Mar 2020

Closing Price	€ 7.82
Shares outstanding	1,536.30m
Market Capitalisation	€ 12013.87m
52-week Range	€ 6.88 / 8.84
Avg. Volume (12 Months)	3,216,472

Multiples	2018	2019E	2020E
P/FFO 1	20.3	18.4	16.8
P/EPRA NAV	0.9	0.7	0.7
FFO 1 Yield	4.9%	5.4%	6.0%
Div. Yield	3.2%	3.5%	3.9%

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	12.0%
Avisco Group	9.6%
Blackrock	5.1%
Free Float	73.3%



. . . 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 €92m to €117m p.a. within five years post merger.

VALUATION MODEL

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	630	709	757	798	806
(+) Revaluations	1,287	865	739	666	314
(+) Investment income (GCP)	116	123	130	137	138
(-) Tax expense	56	62	67	70	71
NOPAT	1,978	1,636	1,559	1,530	1,187
Total assets	23,957	25,501	26,951	28,098	28,098
(-) Current liabilities	656	732	775	813	813
(+) Current financial debt	27	27	27	27	27
(-) Cash	1,916	1,242	1,038	1,022	1,022
(+) Deferred taxes	1,077	1,294	1,500	1,700	1,700
Capital employed (CE)	22,489	24,848	26,665	27,990	27,990
Average CE	20,257	23,668	25,756	27,327	27,990
ROCE	9.8%	6.9%	6.1%	5.6%	4.2%
WACC	4.0%	4.0%	4.0%	4.0%	4.0%
ROCE-WACC	5.8%	2.9%	2.1%	1.6%	0.3%
Economic Profit	1,173	695	536	444	75
NPV	1,173	673	499	398	2,267
Fair value calculation					
Total return	5,011				
(+) NAV ¹ (2018)	8,742				
(-) Dividend to be paid	210				
Equity value	13,543				
Diluted SO (m) ²	1,352				
Fair value per share (€)	10.00				
<small>¹ excludes perpetuals ² excluding treasury shares</small>					
Target price (€)	10.00				
Share price (€)	7.82				
Return potential	27.9%				
Dividend yield	3.5%				
Total return potential	31.4%				



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	1,068
Capital gains, property revaluations & other	720	1,327	1,536	1,287	865	739
Result from equity-accounted investees	197	228	252	199	162	164
Property OpEx	-75	-147	-219	-227	-261	-278
Administration & other OpEx	-8	-15	-23	-27	-30	-31
Operating income (EBIT)	1,107	1,920	2,294	2,120	1,739	1,662
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	1,975	1,593	1,511
Tax expense	-20	-34	-44	-54	-63	-67
Deferred tax	-103	-263	-213	-277	-223	-212
Tax result	-123	-297	-257	-330	-286	-278
Comprehensive net income	901	1,539	1,828	1,645	1,307	1,233
Minority interests	169	228	161	165	131	123
Perpetual notes	4	29	46	51	73	73
Net income to owners	728	1,283	1,620	1,430	1,104	1,037
Basic EPS (€)	1.11	1.56	1.54	1.22	0.90	0.85
Diluted EPS (€)	0.87	1.35	1.49	1.22	0.91	0.85
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%	-7.6%	-17.9%	-4.4%
Adjusted EBITDA	109.8%	74.3%	46.5%	26.9%	12.6%	6.7%
Net income/ loss	6.0%	76.1%	26.3%	-11.8%	-22.8%	-6.1%
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	534
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	2,826	2,195	2,015
Cash and cash equivalents	641	736	1,243	1,916	1,242	1,038
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	21,131	23,306	24,936
Property, plant & equipment	23	26	33	34	34	35
Investment properties	5,016	9,804	14,174	18,183	20,230	21,736
Equity accounted investees	1,557	1,906	2,215	2,361	2,465	2,568
Other LT assets	393	512	517	554	576	597
Total assets	8,089	13,770	19,041	23,957	25,501	26,951
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	10,370	10,856	11,401
Long-term debt	3,385	5,078	7,444	9,042	9,299	9,628
Deferred tax liabilities	366	752	882	1,159	1,382	1,593
Other LT liabilities	48	125	164	169	175	180
Minority interests	373	674	567	732	862	986
Shareholders' equity	3,568	6,576	9,377	12,199	13,050	13,789
Total consolidated equity and debt	8,089	13,770	19,041	23,957	25,501	26,951
Ratios						
ICR (x)	5.7	5.4	4.7	5.0	5.5	5.7
Equity ratio	48.7%	52.6%	52.2%	54.0%	54.6%	54.8%
EPRA NAV ¹	3,871	6,483	8,742	10,843	11,915	12,862
EPRA NAVPS ¹ (€)	4.9	6.5	7.7	8.9	9.7	10.5
Net debt	2,737	4,400	5,871	6,782	7,713	8,245
Return on equity (ROE)	25.3%	23.4%	19.5%	13.5%	10.0%	8.9%
Loan-to-value (LTV)	39.3%	35.9%	35.3%	32.6%	33.6%	33.5%

¹ excludes perpetual notes



CASH FLOW STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net income	901	1,539	1,828	1,645	1,307	1,233
Depreciation & amortisation	2	2	2	2	2	2
Capital gains, property revaluations & other	-720	-1,327	-1,536	-1,287	-865	-739
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	330	286	278
Operating cash flow	195	369	510	634	714	761
Changes in working capital	-17	-13	-39	-29	19	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	-1,182	-767
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	-1,189	-775
Debt financing, net	1,786	1,165	2,588	1,598	257	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	-214	-193
Net cash flows	523	100	501	673	-674	-204
Assets held for sale - cash	-2	-5	6	0	0	0
Cash, start of the year	121	641	736	1,243	1,916	1,242
Cash, end of the year	641	736	1,243	1,916	1,242	1,038
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%	14.0%	7.6%
FFOPS 1 (€)	47.5%	40.7%	8.1%	10.3%	9.5%	7.6%

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...30	↓	↓	↓	↓
31	21 November 2019	€7.76	Buy	€9.80
32	27 November 2019	€7.65	Buy	€10.00
33	27 January 2020	€8.28	Buy	€10.00
34	Today	€7.82	Buy	€10.00

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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.

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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/>

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