

Aroundtown SA

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

2019
 Preliminary results

RATING
BUY

PRICE TARGET
€ 10.00

Return Potential 170.3%
 Risk Rating Medium

OVERSOLD STOCK OFFERS EXCEPTIONAL UPSIDE BASED ON SOLID FUNDAMENTALS

Aroundtown published preliminary results in line with guidance and our forecasts. The company also used the opportunity to highlight the strengths of its well-diversified operations and capital structure to reassure nervous investors. The pandemic's economic consequences have rattled investors, who are particularly concerned about AT's exposure to the beleaguered hotel sector. We believe the heavy selling in the stock is overblown and is pricing in an irrational doomsday scenario. Our rating remains Buy with a €10 price target.

Investors are overly worried about the hotel portfolio AT shares have plummeted some 58% from mid-February highs and are now trading at all-time lows. Investor jitters centre around two main elements: the impact of coronavirus upon the hotel portfolio as Germany and Europe shut down and quarantines are imposed, and the strength of the financial structure, which contained €9bn of corporate debt as of 9M/19. Take the hotel exposure first. The travel industry has been walloped with border closures spreading and travel at a stand-still. Hotel assets make up 24% of AT's property portfolio. While hoteliers will suffer in the near term, AT's hotel leases are fixed and have no variable element linked to the operational performance of the hotels. So far 11 of 177 hotels in AT's portfolio have shut down. Although more may follow as quarantines spread, hotel operators are insured against temporary business interruptions and many will be eligible for government relief. We therefore believe potential defaults will be the rare exception rather than the norm. We therefore consider investor worries about wholesale write-offs as overblown. In the worst case scenario, Aroundtown could repurpose hotels as residential apartments.

Well diversified portfolio should buffer economic shock In the past, investors have questioned AT's stake in the residential landlord Grand City Properties (39% stake). We believe this exposure will help buffer AT against the economic shock. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Net rent (€m)	233.38	448.98	633.00	750.45	848.45	903.79
Adj. EBITDA (€m)	268.23	429.30	606.04	746.50	832.34	886.70
Net income (€m)	901.09	1,539.00	1,827.80	1,447.60	1,297.64	1,224.24
EPS (diluted) (€)	0.88	1.35	1.49	1.07	0.90	0.85
EPRA NAV ¹ (€m)	4,349.05	7,656.28	10,290.10	13,177.33	14,192.22	15,131.28
NAVPS ¹ (€m)	5.40	7.63	9.11	10.77	11.60	12.37
DPS (€)	0.16	0.23	0.25	0.28	0.30	0.33
FFO 1 (€m)	165.63	293.00	405.74	499.91	569.51	612.48
FFOPS 1 (€)	0.25	0.36	0.39	0.43	0.47	0.50
Liquid assets (€m)	833.44	841.60	1,599.50	2,288.17	1,622.68	1,430.42

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.

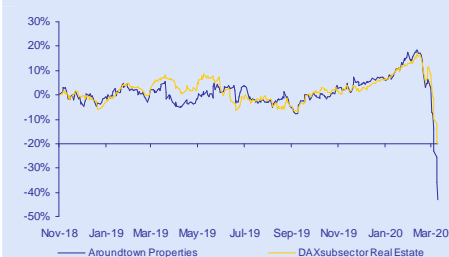
MARKET DATA

As of 18 Mar 2020

Closing Price	€ 3.70
Shares outstanding	1536.30m
Market Capitalisation	€ 5682.77m
52-week Range	€ 3.70 / 8.84
Avg. Volume (12 Months)	3,462,234

Multiples	2018	2019E	2020E
P/FFO 1	9.6	8.7	7.9
P/EPRA NAV	0.4	0.3	0.3
FFO 1 Yield	10.4%	11.5%	12.6%
Div. Yield	6.8%	7.5%	8.2%

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%



Once the spread of covid-19 moderates, we believe German residential will be among the quickest sectors to recover, given its strong cashflow visibility and attractive dividend yield. We therefore consider the residential component a key differentiator to other pure commercial landlords. AT's office portfolio is also spread across Germany's major hubs. We also expect these metropolises to be the first to come back on-line, once imposed shut downs are lifted. Businesses will also eligible for government support to keep operations afloat.

Balance sheet built to weather the storm Aside from hotel concerns, investors have questioned the ability of Aroundtown's balance sheet to absorb the economic shock and are voicing concerns over covenants. The company noted in its preliminary results presentation that it has ample headroom for all of its bond covenants. The capital structure (including TLG) features several reassuring metrics: (1) €16.2bn in unencumbered assets; (2) ample headroom with a 34% LTV; (3) a 6.8 year debt maturity; and (4) a 1.6% cost of debt.

The company reported cash of around €2.8bn as of March. Aroundtown expects FFO cash flows of some €1.3bn over the next 24 months on a post TLG merger basis to boost total available liquidity to €4.1bn. This compares to same-period financial commitments of €1.6bn to cover debt repayments, dividend pay-outs to investors and note holders, plus committed acquisitions and CapEx. We note that the first major cluster of bond maturities is not until 2024 and 2025.

Strong 2019 results are reason for optimism The company reported a strong set of preliminary results for 2019. Net rent topped €765m compared to FBe of €750m and €633m in 2018. This translated into FFO 1 of €503m or €0.43 per share, which was in line with guidance (table 1) and also matched our forecasts (FBe: €500m; €0.43). EPRA NAV totalled €10.6bn, while EPRA NAVPS climbed 16% Y/Y to €8.7. Including perpetual notes EPRA NAV reached €13.1bn or €10.7 per share (+20%).

Table 1: Preliminary KPIs vs guidance and FBe

	Unit	Guidance	2019P	2019E
FFO 1	€m	>500	503	500
FFOPS 1	€	0.43	0.43	0.43
DPS (65% of FFO)	€	0.28	0.28	0.28
LFL net rent growth	%	>4.0	4.2	4.2

Source: First Berlin Equity Research; Aroundtown

The company exited the year with cash and liquid assets of €3bn, while the balance sheet featured a 34% LTV and 53% equity ratio. The interest coverage ratio remained a solid 4.8x. The company will report full year results and host a conference call on 26 March at which time we will fully update our numbers.



VALUATION MODEL

Investors will likely continue to shrug at good fundamentals and widening NAV discounts until market volatility moderates with greater clarity on the economic downside once the spread of covid-19 flattens out. We regard the heavy selling in Aroundtown shares as overdone. At current levels, investors stand to be rewarded with a dividend yield that now tops 8% and excellent upside once the stock recovers from the sharp selloff. Our rating is Buy with a €10 price target.

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	630	709	757	797	805
(+) Revaluations	1,058	855	729	658	308
(+) Investment income (GCP)	116	123	130	137	138
(-) Tax expense	56	62	67	70	71
NOPAT	1,748	1,624	1,550	1,521	1,180
Total assets	23,728	25,254	26,696	27,834	27,834
(-) Current liabilities	656	732	774	812	812
(+) Current financial debt	27	27	27	27	27
(-) Cash	1,917	1,251	1,059	1,047	1,047
(+) Deferred taxes	1,045	1,260	1,465	1,664	1,664
Capital employed (CE)	22,226	24,558	26,354	27,665	27,665
Average CE	20,126	23,392	25,456	27,010	27,665
ROCE	8.7%	6.9%	6.1%	5.6%	4.3%
WACC	4.0%	4.0%	4.0%	4.0%	4.0%
ROCE-WACC	4.7%	3.0%	2.1%	1.7%	0.3%
Economic Profit	949	695	538	448	81
NPV	949	674	502	402	2,457
Fair value calculation					
Total return	4,983				
(+) NAV ¹ (2018)	8,742				
(-) Dividend to be paid	210				
Equity value	13,516				
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 (€)	3.70				
Return potential	170.3%				
Dividend yield	7.5%				
Total return potential	177.8%				



INCOME STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net rent	233	449	633	750	848	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	1,058	855	729
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	1,890	1,728	1,652
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	1,746	1,582	1,501
Tax expense	-20	-34	-44	-54	-63	-67
Deferred tax	-103	-263	-213	-244	-221	-210
Tax result	-123	-297	-257	-298	-284	-277
Comprehensive net income	901	1,539	1,828	1,448	1,298	1,224
Minority interests	169	228	161	145	130	122
Perpetual notes	4	29	46	51	73	73
Net income to owners	728	1,283	1,620	1,252	1,095	1,029
Basic EPS (€)	1.11	1.56	1.54	1.06	0.90	0.84
Diluted EPS (€)	0.87	1.35	1.49	1.07	0.90	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%	-17.6%	-8.6%	-4.4%
Adjusted EBITDA	109.8%	74.3%	46.5%	26.9%	12.5%	6.7%
Net income/ loss	6.0%	76.1%	26.3%	-22.7%	-12.5%	-6.0%
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	495	533
Adjustment for GCP contribution	46	56	67	69	74	79
FFO 1	166	293	406	500	570	612



BALANCE SHEET

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Assets						
Current assets, total	1,100	1,523	2,102	2,827	2,204	2,036
Cash and cash equivalents	641	736	1,243	1,917	1,251	1,059
Short-term investments	181	99	366	366	366	366
Receivables	111	163	277	328	370	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	20,901	23,049	24,660
Property, plant & equipment	23	26	33	34	34	35
Investment properties	5,016	9,804	14,174	17,953	19,974	21,461
Equity accounted investees	1,557	1,906	2,215	2,361	2,465	2,568
Other LT assets	393	512	517	553	575	595
Total assets	8,089	13,770	19,041	23,728	25,254	26,696
Shareholders' equity & debt						
Current liabilities, total	349	566	606	656	732	774
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	10,338	10,816	11,362
Long-term debt	3,385	5,078	7,444	9,042	9,293	9,624
Deferred tax liabilities	366	752	882	1,127	1,348	1,558
Other LT liabilities	48	125	164	169	175	180
Minority interests	373	674	567	712	842	964
Shareholders' equity	3,568	6,576	9,377	12,021	12,864	13,596
Total consolidated equity and debt	8,089	13,770	19,041	23,728	25,254	26,696
Ratios						
ICR (x)	5.7	5.4	4.7	5.0	5.5	5.7
Equity ratio	48.7%	52.6%	52.2%	53.7%	54.3%	54.5%
EPRA NAV ¹	3,871	6,483	8,742	10,633	11,695	12,634
EPRA NAVPS ¹ (€)	4.9	6.5	7.7	8.7	9.6	10.3
Net debt	2,737	4,400	5,871	6,781	7,698	8,220
Return on equity (ROE)	25.3%	23.4%	19.5%	12.0%	10.1%	9.0%
Loan-to-value (LTV)	39.3%	35.9%	35.3%	32.9%	33.9%	33.8%

¹ excludes perpetual notes



CASH FLOW STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net income	901	1,539	1,828	1,448	1,298	1,224
Depreciation & amortisation	2	2	2	2	2	2
Capital gains, property revaluations & other	-720	-1,327	-1,536	-1,058	-855	-729
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	298	284	277
Operating cash flow	195	369	510	634	713	761
Changes in working capital	-17	-13	-39	-28	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	608	729	764
CapEx/ intangibles	-7	-9	-5	-2	-3	-3
Disposal/ investment in investment properties, net	-1,051	-615	-915	-2,721	-1,167	-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	-1,174	-765
Debt financing, net	1,786	1,165	2,588	1,598	251	330
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	-220	-191
Net cash flows	523	100	501	674	-666	-192
Assets held for sale - cash	-2	-5	6	0	0	0
Cash, start of the year	121	641	736	1,243	1,917	1,251
Cash, end of the year	641	736	1,243	1,917	1,251	1,059
Adjusted EBITDA commercial/share (€)	0.30	0.41	0.47	0.54	0.58	0.62
FFO 1	166	293	406	500	570	612
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%	8.1%	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...31	↓	↓	↓	↓
32	27 November 2019	€7.65	Buy	€10.00
33	27 January 2020	€8.28	Buy	€10.00
34	4 March 2020	€7.82	Buy	€10.00
35	Today	€3.70	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.

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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

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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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