

Aroundtown SA

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

Q1/20
 Results

RATING
BUY

PRICE TARGET
€ 10.00

Return Potential 93.3%
 Risk Rating Medium

Q1 RESULTS AND INSIGHTS INTO PANDEMIC EFFECTS

First quarter headline figures beat our forecasts, thanks to 3.7% LFL growth, and showed strong annualised growth led by net rental income (+33%) and FFO 1 (+25%). Including TLG, commercial properties totalled €23.2bn at the end of Q1, while liquidity topped €3bn giving the company an excellent buffer against a prolonged downturn. Management recently postponed the dividend payout to preserve liquidity in the event that the downturn produces unique buying opportunities from distressed landlords. AT will also buy back shares as these are trading well below the current NAV (€8.8). We reiterate our Buy rating and €10 price target.

Operations absorbing covid-19 ripple effects so far Q1 was business as usual with little trace of the pandemic. Management also provided good insight into the post-Q1 lockdown effects. Excluding hotels, the April rent collections were >90%. This included a >92% rate for the office class, which is well populated (22%) with government and public sector occupiers. The residential portfolio topped 95%, while retail totalled ~80% thanks to a high portion of grocer tenants. Meanwhile, most hotels opted to defer rents in April and May in accordance with the rent holiday granted by the regulator. This is merely a postponement with no signals of looming write-downs.

But there is a lot to play out over the coming quarters A large wave of hotels re-opened this month accounting for 50% of hotel rents. The figure is expected to climb to 66% in June as more hotels come back online. The UK hotels (23% of rent) remain largely closed but will start to open their doors in July and August. While this is encouraging, the uncertainty of a renewed and more severe lockdown still hangs in the air and was addressed on the call. But after months of lockdowns, quarantines, and home-working, socially starved people are planning to travel again, and we expect the hospitality and hotel sectors to benefit from “staycationing” tailwinds in the coming quarters. Travel data published. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Net rent (€m)	448.98	633.00	765.70	908.69	1,207.65	1,241.33
Adj. EBITDA (€m)	339.03	508.90	641.04	700.10	1,022.44	1,051.80
Net income (€m)	1,539.00	1,827.80	1,709.10	958.89	1,648.72	1,492.81
EPS (diluted) (€)	1.35	1.49	1.11	0.51	0.67	0.65
EPRA NAV ¹ (€m)	7,656.28	10,290.10	13,117.48	16,511.76	17,807.56	18,768.27
NAVPS ¹ (€m)	7.63	9.11	10.72	13.17	13.88	14.47
DPS (€)	0.23	0.25	0.28	0.24	0.37	0.38
FFO 1 (€m)	293.00	405.74	503.40	478.56	764.26	787.24
FFOPS 1 (€)	0.36	0.39	0.43	0.37	0.57	0.58
Liquid assets (€m)	852.44	1,613.90	3,074.70	2,748.15	2,279.68	2,061.69

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 27 May 2020

Closing Price	€ 5.17
Shares outstanding	1536.40m
Market Capitalisation	€ 7949.33m
52-week Range	€ 3.70 / 8.84
Avg. Volume (12 Months)	4,047,850

Multiples	2019	2020E	2021E
P/FFO 1	12.1	13.9	9.2
P/EPRA NAV	0.5	0.5	0.5
FFO 1 Yield	8.3%	7.2%	10.9%
Div. Yield	5.4%	4.7%	7.1%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2020

Liquid Assets	€ 3,042.00m
Current Assets	€ 3,835.00m
EPRA NAV ¹	€ 15,246.00m
Investment properties	€ 23,156.00m
Current Liabilities	€ 1,417.00m
Total Equity	€ 16,248.00m

¹ including perpetual notes

SHAREHOLDERS

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



... in AT's Q1 presentation support this view. In Aroundtown's core markets, domestic travel dominates hotel demand: Germany (85%); UK (81%); Netherlands (61%). Plus, we also agree with the assumption that AT's predominantly 4-star hotel portfolio will be more resilient than the luxury hotel class. Although the coronavirus put an abrupt halt to eleven years of unprecedented prosperity in the global hospitality sector, we think travellers and the hotel industry will find solutions to adapt to the pandemic.

Meanwhile, home-office is now a thing We are in the midst of the largest experiment in home-working in history. And the longer the crisis persists, the more comfortable workers and employers are getting with long-distance workflow. Corporates are reporting high investment into IT and communication infrastructures to support remote work and are rethinking workspace requirements. It is thus hard to imagine a scenario, whereby the high demand for office space is not somewhat impacted by the ramped up remote-work capacities of corporate occupiers. However, it is impossible to quantify the potential impact with any precision.

BREAKING DOWN THE Q1 RESULTS

Like for like (LFL) growth of 3.7%—in-place rent 3.2%; occupancy 0.5%—was spearheaded by Berlin, Amsterdam, and Leipzig. Some 70% of the performance was attributed to new lettings, 10% to lease extensions, and 20% to CPI indexing. Including TLG, LFL totalled 3.5% for the period.

Table 1: First quarter results vs FBe and prior year

All figures in EURm	Q1/20	Q1/20E	variance	Q1/19	variance
Recurring LT net rental income	233	226	3.1%	176	32%
Net rental income	236	226	4.4%	178	33%
Adjusted EBITDA commercial, recurring LT	197	191	3.1%	148	33%
<i>Margin</i>	85%	85%	-	84%	-
Adjusted EBITDA	238	224	6.3%	180	32%
FFO 1	147	144	2.1%	118	25%
FFOPS 1 (€)	0.114	0.112	2.1%	0.105	9%

Source: First Berlin Equity Research; Aroundtown

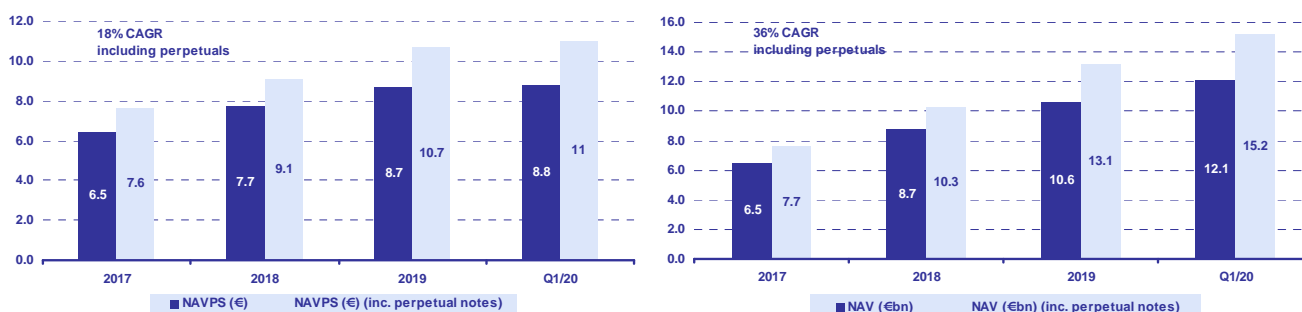
Recurring LT net rental income climbed 32% Y/Y to €233m. On an annualised basis, the KPI now stands at €1bn. 'Adjusted EBITDA commercial, recurring long term' which reflects recurring operational profit excluding capital gains and revaluation effects, rose 33% Y/Y to €197m. Including the GCP contribution, adjusted EBITDA equalled €238m (+32%). FFO 1 beat our estimate and climbed 25% Y/Y to €147m in Q1/20 equating to FFOPS 1 of €0.114 (+9%). Annualised FFOPS 1 now stands at €0.46.

Property revaluations and capital gains grew by 33% Y/Y and totalled €318m for the quarter (Q1/19: €240m). The performance was helped by the TLG takeover and higher portfolio volume in addition to good operational execution. Management noted on the call that some 20% of assets were assessed in Q1. These were mainly offices with hotel assessments suspended until later in the year.

Net income totalled €246m for the period and lagged behind the prior year result (€437m). This owes chiefly to the negative impact of 'other financial results' and higher deferred taxes. Both line items included non-recurring, non-cash expenses related to changes in fair value to derivative instruments.



Figure 1: EPRA NAVPS and EPRA NAV developments



Source: First Berlin Equity Research; Aroundtown

As of 31 March, EPRA NAV totalled €12.1bn (€8.8 / share) compared to €10.6bn at year end 2019 (€8.7 / share, +1%). Growth was spurred by the TLG combination and profits recorded during the three month period. Including the perpetual notes, which are classified as equity under IFRS, this KPI stood at €15.2bn or €11.0 / share (+3%).

BALANCE SHEET FEATURES 9% CASH & LIQUID ASSET RATIO

Table 2: Financial highlights

All figures in EURm	Q1/20	2019	variance
Cash and liquid assets	3,042	3,044	0%
Investment property	23,193	18,114	28%
Total assets	32,261	25,445	27%
Net debt	9,555	6,985	37%
Total equity	16,248	13,379	21%
Equity ratio	50%	53%	-
EPRA NAV	12,137	10,633	14%
EPRA NAV inc perpetual notes	15,246	13,117	16%
Loan-to-Value (LTV)	36%	34%	-

Source: First Berlin Equity Research; Aroundtown

The debt structure featured an LTV of 36% alongside a 1.6% average cost of debt with a 6.4 year maturity. Importantly liquid assets remained above €3bn, giving the company good financial flexibility to capitalise on market opportunities that may arise as the pandemic evolves and also buffer against an extended economic downturn. The interest coverage ratio (ICR) and unencumbered asset ratio stood at 4.7x and 74% respectively at the end of Q1. We also note there are no significant (>€0.6bn) maturities until 2024 in the debt portfolio.

Dividend and share buyback Aroundtown will postpone the dividend decision on 2019 earnings until the market stabilises. The company also announced a share buy-back program set to commence 24 June. The latter comes as little surprise. AT shares are down 36% YTD in the wake of the pandemic and now trade at a 45% discount to end of March NAV (€8.8). Details of the buy-back program are expected in the coming weeks.

Although the company already has significant financial firepower (>€3bn), management want to stockpile cash to take advantage of opportunities that may arise. Based on their experience during 2008/9 financial crises, distressed landlords might be forced to sell off attractive assets in the coming months. Since this may take a few months to shake out, management postponed the planned dividend for now but emphasised that this is not a move to husband cash to further shield operations against economic risks.



Table 3: Update to forecasts and price target

	old	new	revision	upside	dividend yield	total upside
Price target (€)	10.0	10.0	0.0%	93.3%	4.7%	97.9%
in €m	2020E			2021E		
	Old	New	Variance	Old	New	Variance
Net rent (NRI)	892	909	1.9%	1,216	1,208	-0.7%
Adj. EBITDA, commercial margin	663	700	5.6%	1,032	1,022	-0.9%
FFO 1 Margin	445	479	7.5%	773	764	-1.1%
FFOPS 1 (€)	0.35	0.37	7.5%	0.50	0.50	-1.1%

Source: First Berlin Equity Research estimates

VALUATION MODEL

Results beat our targets and gave an initial gauge of post-TLG takeover operations. Adjustments to our forecasts reflect the better than expected Q1 and a reduction in expected deferred rent collections next year, since Q1 rents were essentially collected at a normal rate. Our valuation model yields fair value of €17.2bn or €12.7 per share based on the business combination. Although we have attempted to reflect downside risk by adopting a base covid-19 scenario into our model (see note of 6 April 2020), we cannot account for all the unknowns in this highly volatile environment. We concede that select write-downs could still result. But we cannot estimate these with any precision. Therefore, to factor in any lurking black swans, we leave our price target unchanged at €10. Our Rating remains Buy.

in €m	2020E	2021E	2022E	2023E	TV
EBITDA	700	1,022	1,052	985	995
(+) Revaluations	560	1,056	853	745	522
(+) Investment income (GCP)	121	127	134	142	143
(-) Tax expense	62	86	89	84	85
NOPAT	1,319	2,119	1,951	1,787	1,575
Total assets	29,662	31,986	33,782	35,106	35,106
(-) Current liabilities	1,042	1,133	1,160	1,175	1,175
(+) Current financial debt	328	328	328	328	328
(-) Cash	-698	-1,168	-1,386	-1,430	-1,430
(+) Deferred taxes	1,914	2,197	2,456	2,690	2,690
Capital employed (CE)	31,561	34,547	36,792	38,380	38,380
Average CE	31,066	33,054	35,669	37,586	38,380
ROCE	4.2%	6.4%	5.5%	4.8%	4.1%
WACC	4.0%	4.0%	4.0%	4.0%	4.0%
ROCE-WACC	0.3%	2.4%	1.5%	0.8%	0.1%
Economic Profit	84	805	533	293	49
NPV	83	757	482	255	1,761
Fair value calculation					
Total return	3,337				
(+) NAV ¹ (2019)	14,297				
(-) Dividend to be paid	431				
Equity value	17,203				
Diluted SO (m) ²	1,352				
Fair value per share (€)	12.70				
<small>¹ pro-forma including TLG, excluding perpetual notes; ²share count excludes shares with suspended voting rights</small>					
Target price (€)	12.70				
Share price (€)	5.17				
Return potential	145.5%				
Dividend yield	4.7%				
Total return potential	150.1%				



INCOME STATEMENT

All figures in EURm	2017	2018	2019	2020E	2021E	2022E
Net rent	449	633	766	909	1,208	1,241
Operating and other income	78	114	129	160	213	219
Rental and operating income (RI)	527	747	895	1,069	1,421	1,460
Capital gains, property revaluations & other	1,327	1,536	1,218	560	1,056	853
Result from equity-accounted investees	228	252	299	159	162	166
Property OpEx	-147	-219	-228	-316	-358	-370
Administration & other OpEx	-15	-23	-27	-54	-42	-41
Operating income (EBIT)	1,920	2,294	2,156	1,417	2,238	2,069
Net financial result	-70	-115	-142	-193	-201	-209
Other financial expenses	-15	-94	46	0	0	0
Pre-tax income (EBT)	1,836	2,085	2,060	1,224	2,037	1,860
Tax expense	-34	-44	-71	-74	-103	-107
Deferred tax	-263	-213	-280	-191	-285	-260
Tax result	-297	-257	-351	-265	-389	-367
Comprehensive net income	1,539	1,828	1,709	959	1,649	1,493
Minority interests	228	161	343	182	330	299
Perpetual notes	29	46	58	85	85	85
Net income to owners	1,283	1,620	1,308	692	1,234	1,110
Basic EPS (€)	1.56	1.54	1.12	0.51	0.66	0.64
Diluted EPS (€)	1.35	1.49	1.11	0.51	0.67	0.65
Adjusted EBITDA commercial	339	509	641	700	1,022	1,052
Ratios						
Adj EBITDA commercial margin	81.7%	80.9%	83.7%	77.0%	84.7%	84.7%
Tax rate	7.8%	7.3%	9.1%	9.0%	9.0%	9.0%
Expenses as % of revenues						
Property OpEx	27.9%	29.3%	25.5%	29.6%	25.2%	25.3%
Administration & other OpEx	2.8%	3.0%	3.1%	5.1%	3.0%	2.8%
Y/Y Growth						
Revenues	92.6%	41.7%	19.8%	19.5%	32.9%	2.8%
Operating income	73.5%	19.4%	-6.0%	-34.3%	58.0%	-7.6%
Adjusted EBITDA	74.3%	50.1%	25.9%	9.2%	46.0%	2.9%
Net income/ loss	76.1%	26.3%	-19.3%	-47.1%	78.3%	-10.1%
Funds from Operations (FFO)						
Adjusted EBITDA commercial portfolio	339	509	641	700	1,022	1,052
FFO 1 commercial (long-term recurring)	237	339	415	377	662	680
Adjustment for GCP contribution	56	67	89	101	102	107
FFO 1	293	406	503	479	764	787



BALANCE SHEET

All figures in EURm	2017	2018	2019	2020E	2021E	2022E
Assets						
Current assets, total	1,523	2,102	3,743	3,343	2,967	2,770
Cash and cash equivalents	736	1,243	2,192	2,407	1,938	1,720
Short-term investments	99	366	878	341	341	342
Receivables	163	277	454	439	525	540
Other current assets	18	5	5	0	0	0
Assets held for sale	508	211	214	155	162	168
Non-current assets, total	12,247	16,939	21,702	29,475	32,175	34,168
Property, plant & equipment	26	33	20	20	21	21
Investment properties	9,804	14,174	18,127	24,894	27,450	29,303
Equity accounted investees	1,906	2,215	2,506	3,409	3,512	3,615
Other LT assets	512	517	1,049	1,151	1,193	1,228
Total assets	13,770	19,041	25,445	32,818	35,142	36,938
Shareholders' equity & debt						
Current liabilities, total	566	606	857	1,042	1,133	1,160
Short-term debt	17	27	246	328	328	328
Accounts payable	267	451	343	392	470	484
Provisions & other current liabilities	282	128	268	321	334	348
Long-term liabilities, total	5,955	8,491	11,209	15,150	16,046	16,818
Long-term debt	5,078	7,444	9,759	12,748	13,348	13,848
Deferred tax liabilities	752	882	1,107	1,996	2,281	2,542
Other LT liabilities	125	164	342	406	417	428
Minority interests	674	567	1,309	2,114	2,443	2,742
Shareholders' equity	6,576	9,377	12,070	14,512	15,520	16,218
Total consolidated equity and debt	13,770	19,041	25,445	32,818	35,142	36,938
Ratios						
ICR (x)	5.4	4.7	5.3	4.1	5.6	5.6
Equity ratio	52.6%	52.2%	52.6%	50.7%	51.1%	51.3%
EPRA NAV ¹	6,483	8,742	10,633	13,403	14,699	15,659
EPRA NAVPS ¹ (€)	6.5	7.7	8.7	9.9	10.9	11.6
Net debt	4,400	5,871	6,985	10,329	11,397	12,115
Return on equity (ROE)	23.4%	19.5%	14.2%	6.6%	10.6%	9.2%
Loan-to-value (LTV)	35.9%	35.3%	33.5%	36.0%	36.3%	36.3%

¹ excludes perpetual notes



CASH FLOW STATEMENT

All figures in EURm	2017	2018	2019	2020E	2021E	2022E
Net income	1,539	1,828	1,709	959	1,649	1,493
Depreciation & amortisation	2	2	2	2	3	3
Capital gains, property revaluations & other	-1,327	-1,536	-1,218	-560	-1,056	-853
Profit share from equity accounted investm	-228	-252	-299	-159	-162	-166
Shared based payment in a subsidiary	2	3	5	0	0	0
Net finance expenses	85	208	96	193	201	209
Tax result	297	257	351	265	389	367
Operating cash flow	369	510	646	700	1,023	1,052
Changes in working capital	-13	-39	-34	622	-38	-24
Provisions for other liabilities	-2	-3	-3	101	18	18
Dividend received	41	51	61	56	60	64
Tax paid	-33	-46	-57	-74	-103	-107
Net operating cash flow	362	473	614	1,405	958	1,003
CapEx/ intangibles	-9	-5	-3	-3	-3	-3
Disposal/ investment in investment properties, net	-615	-915	-538	-1,500	-1,500	-1,000
Acquisition/disposals of subsidiaries	-1,946	-1,829	-1,773	0	0	0
Proceeds from investments in financial as	-184	-175	-576	-43	-13	-13
Cash flow from investing	-2,754	-2,924	-2,890	-1,546	-1,516	-1,016
Debt financing, net	1,165	2,588	2,148	815	600	500
Equity financing, net	866	601	596	0	0	0
Dividends paid	-155	-226	-209	-300	-311	-497
Other financing activities	682	87	854	-3,072	0	0
Net paid financing expenses	-66	-97	-161	-193	-201	-209
Cash flow from financing	2,492	2,953	3,228	-2,749	88	-206
Net cash flows	100	501	952	-2,890	-469	-219
Assets held for sale - cash	-5	5	-3	0	0	0
Cash, start of the year	641	736	1,243	2,192	-698	-1,168
Cash, end of the year	736	1,243	2,192	-698	-1,168	-1,386
Adjusted EBITDA commercial/share (€)	0.41	0.47	0.55	0.54	0.76	0.78
FFO 1 (inc. GCP contribution)	293	406	503	479	611	651
FFOPS 1 (€)	0.36	0.39	0.43	0.37	0.50	0.53
Y/Y Growth						
EBITDA/share		14.4%	15.5%	-0.3%	39.1%	2.9%
FFO 1		38.5%	24.1%	-4.9%	27.7%	6.6%
FFOPS 1 (€)		8.1%	11.0%	-13.2%	34.4%	6.6%

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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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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	27 January 2020	€8.28	Buy	€10.00
34	4 March 2020	€7.82	Buy	€10.00
35	19 March 2020	€3.70	Buy	€10.00
36	6 April 2020	€4.28	Buy	€10.00
37	Today	€5.17	Buy	€10.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

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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: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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