

# Aroundtown SA

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

Update

**RATING** **BUY**  
**PRICE TARGET** **€ 10.00**  
 Return Potential 93.4%  
 Risk Rating Medium

## SHARE BUYBACK DETAILS SET

Aroundtown announced details of its share buyback program this morning. The company will purchase up to 120m shares for a total purchase price (excluding incidental costs) of up to €500m through 31 December 2020. AT1 shares have been hit hard since the onset of the pandemic over concerns surrounding the hotel portfolio and the impact of the covid-19- driven economic downturn on the office segment. The shares trade 41% below Q1/20 NAVPS of €8.8. Our rating remains Buy with a €11 price target.

**Looking to build long-term value** Management continue to explore the best options for putting the company's health liquidity position (>€3bn) to work. Given the steep share price discount to NAVPS, the buyback is a no-brainer. The company also continues to monitor the commercial markets for unique opportunities. Depending on the severity of the economic downturn, enfeebled landlords might be forced to sell off attractive assets in the coming months. Therefore, management postponed the planned dividend payout on 2019 earnings to maximise financial firepower when the market shakes out.

**Portfolio diversification buffers against market uncertainties** In its Q1 presentation, AT management also provided good insights into operational developments since the lockdown (see note of 28 May 2020) reporting high collection rates across its asset classes and highlighting developments for the troubled hotel sector. A wave of hotel re-openings and initial bookings are encouraging. While it remains way too early to predict the overall impact of the economic downturn, AT's exposure to the resilient residential sector (12% of portfolio and >17% of AT market cap) combined with good tenant diversity for its office assets (49% of portfolio) located across major cities help offset downside risks. Plus, having forged the company on the back of the global financial crises in 2008, this is not management's first economic rodeo. We expect this experience to play a key role as the company adapts to economic ripple effects. (p.t.o.)

## FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	448.98	633.00	765.70	908.69	1,207.65	1,241.33
Y-o-y growth	339.03	508.90	641.04	700.10	1,022.44	1,051.80
EBIT (€m)	1,539.00	1,827.80	1,709.10	958.89	1,648.72	1,492.81
EBIT margin	1.35	1.49	1.11	0.51	0.67	0.65
Net income (€m)	7,656.28	10,290.10	13,117.48	16,511.76	17,807.56	18,768.27
EPS (diluted) (€)	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
FCF (€m)	293.00	405.74	503.40	478.56	764.26	787.24
Net gearing	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

## 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 01 Jun 2020

Closing Price	€ 5.17
Shares outstanding	1536.40m
Market Capitalisation	€ 7943.19m
52-week Range	€ 3.70 / 8.84
Avg. Volume (12 Months)	4,108,702

Multiples	2019	2020E	2021E
P/FFO 1	12.1	13.9	9.1
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 <sup>1</sup>	€ 15,246.00m
Investment properties	€ 23,156.00m
Current Liabilities	€ 1,417.00m
Total Equity	€ 16,248.00m

<sup>1</sup> including perpetual notes

## SHAREHOLDERS

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



## VALUATION MODEL

Our valuation model yields fair value of €17.1bn 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
<b>EBITDA</b>	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
<b>NOPAT</b>	<b>1,319</b>	<b>2,119</b>	<b>1,951</b>	<b>1,787</b>	<b>1,575</b>
<b>Total assets</b>	<b>32,818</b>	<b>35,142</b>	<b>36,938</b>	<b>38,262</b>	<b>38,262</b>
(-) Current liabilities	1,042	1,133	1,160	1,175	1,175
(+) Current financial debt	328	328	328	328	328
(-) Cash	2,407	1,938	1,720	1,676	1,676
(+) Deferred taxes	1,914	2,197	2,456	2,690	2,690
<b>Capital employed (CE)</b>	<b>31,611</b>	<b>34,597</b>	<b>36,842</b>	<b>38,430</b>	<b>38,430</b>
Average CE	31,091	33,104	35,719	37,636	38,430
ROCE	4.2%	6.4%	5.5%	4.7%	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	83	803	531	291	47
<b>NPV</b>	<b>82</b>	<b>756</b>	<b>480</b>	<b>253</b>	<b>1,691</b>
<b>Fair value calculation</b>					
<b>Total return</b>	<b>3,262</b>				
(+) NAV <sup>1</sup> (2019)	14,297				
(-) Dividend to be paid	431				
<b>Equity value</b>	<b>17,128</b>				
Diluted SO (m) <sup>2</sup>	1,352				
<b>Fair value per share (€)</b>	<b>12.70</b>				
<small><sup>1</sup> pro-forma including TLG, excluding perpetual notes; <sup>2</sup>share count excludes shares with suspended voting rights</small>					
<b>Target price (€)</b>	<b>12.70</b>				
Share price (€)	5.17				
Return potential	145.5%				
Dividend yield	4.7%				
<b>Total return potential</b>	<b>150.1%</b>				



## INCOME STATEMENT

All figures in EURm	2017	2018	2019	2020E	2021E	2022E
<b>Net rent</b>	<b>449</b>	<b>633</b>	<b>766</b>	<b>909</b>	<b>1,208</b>	<b>1,241</b>
Operating and other income	78	114	129	160	213	219
<b>Rental and operating income (RI)</b>	<b>527</b>	<b>747</b>	<b>895</b>	<b>1,069</b>	<b>1,421</b>	<b>1,460</b>
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
<b>Operating income (EBIT)</b>	<b>1,920</b>	<b>2,294</b>	<b>2,156</b>	<b>1,417</b>	<b>2,238</b>	<b>2,069</b>
Net financial result	-70	-115	-142	-193	-201	-209
Other financial expenses	-15	-94	46	0	0	0
<b>Pre-tax income (EBT)</b>	<b>1,836</b>	<b>2,085</b>	<b>2,060</b>	<b>1,224</b>	<b>2,037</b>	<b>1,860</b>
Tax expense	-34	-44	-71	-74	-103	-107
Deferred tax	-263	-213	-280	-191	-285	-260
<b>Tax result</b>	<b>-297</b>	<b>-257</b>	<b>-351</b>	<b>-265</b>	<b>-389</b>	<b>-367</b>
<b>Comprehensive net income</b>	<b>1,539</b>	<b>1,828</b>	<b>1,709</b>	<b>959</b>	<b>1,649</b>	<b>1,493</b>
Minority interests	228	161	343	182	330	299
Perpetual notes	29	46	58	85	85	85
<b>Net income to owners</b>	<b>1,283</b>	<b>1,620</b>	<b>1,308</b>	<b>692</b>	<b>1,234</b>	<b>1,110</b>
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
<b>Adjusted EBITDA commercial</b>	<b>339</b>	<b>509</b>	<b>641</b>	<b>700</b>	<b>1,022</b>	<b>1,052</b>
<b>Ratios</b>						
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%
<b>Expenses as % of revenues</b>						
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%
<b>Y/Y Growth</b>						
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%
<b>Funds from Operations (FFO)</b>						
<b>Adjusted EBITDA commercial portfolio</b>	<b>339</b>	<b>509</b>	<b>641</b>	<b>700</b>	<b>1,022</b>	<b>1,052</b>
<b>FFO 1 commercial (long-term recurring)</b>	<b>237</b>	<b>339</b>	<b>415</b>	<b>377</b>	<b>662</b>	<b>680</b>
Adjustment for GCP contribution	56	67	89	101	102	107
<b>FFO 1</b>	<b>293</b>	<b>406</b>	<b>503</b>	<b>479</b>	<b>764</b>	<b>787</b>



## BALANCE SHEET

All figures in EURm	2017	2018	2019	2020E	2021E	2022E
<b>Assets</b>						
<b>Current assets, total</b>	<b>1,523</b>	<b>2,102</b>	<b>3,743</b>	<b>3,343</b>	<b>2,967</b>	<b>2,770</b>
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
<b>Non-current assets, total</b>	<b>12,247</b>	<b>16,939</b>	<b>21,702</b>	<b>29,475</b>	<b>32,175</b>	<b>34,168</b>
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
<b>Total assets</b>	<b>13,770</b>	<b>19,041</b>	<b>25,445</b>	<b>32,818</b>	<b>35,142</b>	<b>36,938</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>566</b>	<b>606</b>	<b>857</b>	<b>1,042</b>	<b>1,133</b>	<b>1,160</b>
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
<b>Long-term liabilities, total</b>	<b>5,955</b>	<b>8,491</b>	<b>11,209</b>	<b>15,150</b>	<b>16,046</b>	<b>16,818</b>
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
<b>Shareholders' equity</b>	<b>6,576</b>	<b>9,377</b>	<b>12,070</b>	<b>14,512</b>	<b>15,520</b>	<b>16,218</b>
<b>Total consolidated equity and debt</b>	<b>13,770</b>	<b>19,041</b>	<b>25,445</b>	<b>32,818</b>	<b>35,142</b>	<b>36,938</b>
<b>Ratios</b>						
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 <sup>1</sup>	6,483	8,742	10,633	13,403	14,699	15,659
EPRA NAVPS <sup>1</sup> (€)	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%

<sup>1</sup> excludes perpetual notes



## CASH FLOW STATEMENT

All figures in EURm	2017	2018	2019	2020E	2021E	2022E
<b>Net income</b>	<b>1,539</b>	<b>1,828</b>	<b>1,709</b>	<b>959</b>	<b>1,649</b>	<b>1,493</b>
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
<b>Operating cash flow</b>	<b>369</b>	<b>510</b>	<b>646</b>	<b>700</b>	<b>1,023</b>	<b>1,052</b>
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
<b>Net operating cash flow</b>	<b>362</b>	<b>473</b>	<b>614</b>	<b>1,405</b>	<b>958</b>	<b>1,003</b>
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
<b>Cash flow from investing</b>	<b>-2,754</b>	<b>-2,924</b>	<b>-2,890</b>	<b>-1,546</b>	<b>-1,516</b>	<b>-1,016</b>
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
<b>Cash flow from financing</b>	<b>2,492</b>	<b>2,953</b>	<b>3,228</b>	<b>-2,749</b>	<b>88</b>	<b>-206</b>
<b>Net cash flows</b>	<b>100</b>	<b>501</b>	<b>952</b>	<b>-2,890</b>	<b>-469</b>	<b>-219</b>
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
<b>Cash, end of the year</b>	<b>736</b>	<b>1,243</b>	<b>2,192</b>	<b>-698</b>	<b>-1,168</b>	<b>-1,386</b>
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
<b>Y/Y Growth</b>						
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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Anschrift:

First Berlin Equity Research GmbH  
Mohrenstr. 34  
10117 Berlin  
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: [info@firstberlin.com](mailto:info@firstberlin.com)

Amtsgericht Berlin Charlottenburg HR B 103329 B

UST-Id.: 251601797

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First Berlin Equity Research GmbH

**Authored by: Ellis Acklin, Analyst**

**All publications of the last 12 months were authored by Ellis Acklin.**

**Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin**

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**Person responsible for forwarding or distributing this financial analysis: Martin Bailey**

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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**

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

**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 <sup>1</sup>	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%

<sup>1</sup> 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.

**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	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	31 May 2020	€4.81	Buy	€10.00
38	28 May 2020	€5.17	Buy	€10.00
39	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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At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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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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