Aroundtown SA

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

Q2/20 Results

RATING	**BUY**
PRICE TARGET	**€ 8.60**
Return Potential	86.7%
Risk Rating	Medium

Q2 PROVIDES INITIAL INSIGHTS INTO PANDEMIC EFFECTS

Q2 reporting and conference call takeaways should provide some reassurance that AT can manage the consequences of the pandemic. Rental income and FFO 1 results topped our forecasts on better than expected collection rates. Revaluations included a write-down of hotel properties but this was topped by gains in other asset groups. This should help ease concerns of wide spread devaluations. We continue to see many positives to support a share price recovery and reverse poor sentiment. Now AT wants to buy back up to 165m shares through a public share offer to take advantage of the sizable discount to NAV. Our revised €8.6 price target (old: €10) owes chiefly to dialled back revaluations and higher disposal assumptions. We stick to our Buy rating.

Q2 rent collections higher than we had thought H1/20 annualised growth reached mid-double digits for headline figures (table 11 overleaf), thanks largely to the TLG takeover. As expected, hotel rent collection rates took a hit in Q2 (21%) and are only recovering slowly (July: 33%). AT provisioned €35m for deferred rents as a precaution and expects this to range from €110m to €130m by YE20. Overall collections stood at 71% in Q2, thanks to good portfolio diversification (table 4 overleaf). Even with a resurgence in covid-19, we think ~37% of rental income represents a rock solid base, thanks to diversification and strong tenant structures (table 7 overleaf).

Strong fundamentals suggest share price recovery a matter of time Q2 performance aside, we take a closer look at key issues weighing on sentiment: (1) the risk to the balance sheet in the event of property devaluations; (2) the risk to rental income streams; and (3) the implications of recent WFH (work from home) headlines for office demand. While we acknowledge that AT faces new challenges after years of supercharged growth, we believe the company is in an excellent position to weather the pandemic and prosper in a post-pandemic world. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Net rent (€m)	448.98	633.00	765.70	953.25	1,132.37	1,178.46
Adj. EBITDA (€m)	339.0	508.9	641.0	761.2	932.2	986.8
Net income (€m)	1,539.00	1,827.80	1,709.10	982.71	1,133.10	1,244.07
EPS (diluted) (€)	1.35	1.49	1.11	0.54	0.60	0.67
EPRA NAV¹ (€m)	7,656.28	10,290.10	13,117.48	15,237.61	15,742.36	16,253.09
NAVPS¹ (€m)	7.63	9.11	10.72	11.27	11.64	12.02
DPS (€)	0.23	0.25	0.28	0.28	0.34	0.36
FFO 1 (€m)	293.00	405.74	503.40	560.81	709.85	752.32
FFOPS 1 (€)	0.36	0.39	0.43	0.44	0.52	0.56
Liquid assets (€ m)	852.44	1,613.90	3,074.70	3,405.60	3,155.63	2,483.08

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.

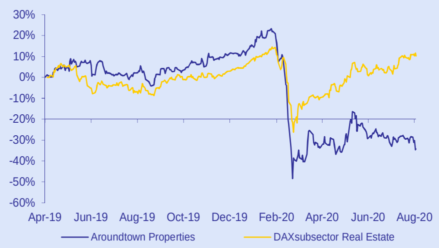
MARKET DATA

As of 31 Aug 2020

Closing Price	€ 4.61
Shares outstanding	1536.40m
Market Capitalisation	€ 7078.19m
52-week Range	€ 3.70 / 8.84
Avg. Volume (12 Months)	4,687,747

Multiples	2019	2020E	2021E
P/FFO 1	10.8	10.6	8.8
P/EPRA NAV	0.4	0.4	0.4
FFO 1 Yield	9.3%	9.5%	11.4%
Div. Yield	6.0%	6.1%	7.4%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2020

Liquid Assets	€ 2,711.00m
Current Assets	€ 4,245.00m
EPRA NAV¹	€ 15,508.00m
Investment properties	€ 22,648.00m
Current Liabilities	€ 1,120.00m
Total Equity	€ 16,445.00m

¹ including perpetual notes

SHAREHOLDERS

Treasury shares	14.0%
Avisco Group	10.0%
Blackrock	5.1%
Free Float	70.9%

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REASONS FOR A SHARE PRICE RECOVERY

German residential stocks are trading near pre-covid-19 levels, thanks to the high resiliency of residential portfolios. But Aroundtown still trades >45% below pre-virus peaks, despite several factors that suggest that the company is well insulated from many concerns burdening sentiment for commercial landlords.

Now Aroundtown is capitalising on the sizable share price discount to NAV (~47%) to buy back shares to create shareholder value. At the same time, AT has up to €2bn in mature, non-core properties disposals in the works. The company is selling off retail properties inherited from TLG above book value to recycle cash into share buy backs. The company announced plans to buy back up to 165m AT shares through a public share purchase against payment in the price range of €4.6 to €5.0 per share. The offer is expected to run from 3 – 16 September.

Concerns over the future of office work weighing on sentiment At the onset of the pandemic, AT's hotel exposure spooked investors triggering a sharp downturn in the shares. Now the market is also pricing in a substantial decline in office space demand over the coming years. We think much of this is overblown, although we grant there will be a recalibration of office strategies that look to embrace greater workforce flexibility. But as we model overleaf, this may not be as disruptive as you think.

HOW MUCH DOWNSIDE CAN THE BALANCE SHEET ABSORB?

Capital structure features several reassuring metrics including: (1) €16.1bn in unencumbered assets equal to 71% of rent; (2) ample headroom with a 36% LTV; (3) a 6.2 year debt maturity with first large maturity in 2022; (4) a 1.6% cost of debt; and (5) significant headroom on all covenants as demonstrated below.

We cannot imagine a scenario in which commercial property valuations do not take a hit as the pandemic plays out. But we expect this to be a mixed bag dependent on the asset class as seen in the Q2 results. Good diversification limits downside, plus covenant headroom will allow the company to absorb a significant downturn in property values.

Table 1: Covenants vs current KPIs

Type	Covenant	As of Q2/20
Debt limitation		
Debt / total assets	<= 60%	32%
Limitation of secured debt		
Secured debt / total assets	<= 45%	-3%
Maintenance of unencumbered assets		
Unencumbered assets / unsecured debt	>= 125%	291%
Maintenance of coverage ratios		
Adjusted EBITDA / interest	>= 1.8x	5.1x

Covenants look safe from devaluation risk To assess the impact of sharp declines in property valuations and rental income we have conducted a stress test on the balance sheet and specifically the EMTN (Euro Medium Term Note) covenants, which are readily calculated from published financials.

Total assets would have to fall off a cliff and dip below ~€18bn (reported Q2 value: €32bn) before the <=60% debt / total asset covenant is breached. While there is some devaluation risk in the commercial portfolio, we do not see a scenario in which properties are devalued >50%.

Table 2: Debt / total assets sensitivities

Net debt (€bn) \ Total assets (€bn)	13	15	17	19	21
8	64%	55%	49%	44%	40%
9	72%	62%	55%	49%	44%
10	79%	69%	**61%**	54%	49%
11	87%	75%	66%	59%	54%
12	95%	82%	72%	65%	59%

Source: First Berlin Equity Research estimates

The picture is similar for the secured debt / total assets and unencumbered assets over secured debt covenants—breaches require a major collapse in property values. Total assets and unencumbered assets would have to fall below €17bn and €8bn respectively. We consider this highly unlikely, and Q2 results containing initial covid-19 impacts are supportive of this view.

Table 3: Secured debt / total assets sensitivities

Net secured debt (€bn) \ Total assets (€bn)	13	15	17	19	21
4	31%	27%	24%	21%	19%
6	46%	40%	35%	32%	29%
8	62%	53%	**47%**	42%	38%
10	77%	67%	59%	53%	48%
12	95%	82%	72%	65%	59%

Source: First Berlin Equity Research estimates

Table 4: Unencumbered assets / unsecured debt sensitivities

Net unsecured debt (€bn) \ Total unencumbered assets (€bn)	6	7	8	9	10
3	200%	233%	267%	300%	333%
5	120%	140%	160%	180%	200%
7	86%	100%	**114%**	129%	143%
9	67%	78%	89%	100%	111%
11	55%	64%	73%	82%	91%

Source: First Berlin Equity Research estimates

Meanwhile, assuming current interest levels, EBITDA would have to similarly nose dive to around €340m before the <=1.8x ICR covenant is breached. (reported Q2/20 ICR: 5.1x). This is highly unlikely given the relative resilience of rental income streams that drive adjusted EBITDA.

Table 5: ICR sensitivities

Interest expense (€m) \ Adjusted EBITDA (€m)	-60	140	340	540	740
110	-0.5x	1.3x	3.1x	4.9x	6.7x
150	-0.4x	0.9x	2.3x	3.6x	4.9x
190	-0.3x	0.7x	**1.8x**	2.8x	3.9x
230	-0.3x	0.6x	1.5x	2.3x	3.2x
270	-0.2x	0.5x	1.3x	2.0x	2.7x

Source: First Berlin Equity Research estimates

WHAT IS THE RISK TO AT'S RENTAL INCOME?

Rent income (RI) not as threatened as some think Aroundtown collected 71% of commercial rents due in Q2. The low figure owes to the beleaguered hotel sector, which has largely opted to defer rents.

Table 6: Commercial portfolio GAV and rental income KPIs

	Investment properties (€m)	Portfolio GAV %	Annualised net rent (€m)	Annualised net rent (%)	Q2 collection rates (%)	July collection rates (%)
Office	11,864	52	510	45	95	96
Hotel	5,936	26	318	28	21	33
Retail	1,829	8	96	8	81	94
Logistics/Wholesale	1,435	6	77	7	100	99
Land for development & rights	1,584	7	0	0	n.a.	n.a.
Total		**100**	**1,001**	**100**	**71**	**-**

Source: First Berlin Equity Research; Aroundtown

Table 7: RI by asset class and portfolio % (including GCP)

	Annualised net rent (€m)	Annualised net rent (%)	Q2 collection rates (%)	July collection rates (%)	Low risk rent base (%)
Office	510	45	95	96	10
Hotel	318	28	21	33	-
Retail	96	8	81	94	8
Logistics/Wholesale	77	7	100	99	7
Land for development & rights	0	0	n.a.	n.a.	-
Residential	141	12	99	99	12
Total	**1,142**	**100**	**71**	**-**	**37**

Source: First Berlin Equity Research; Aroundtown

We judge ~35% of AT's rental income streams are well insulated from a prolonged downturn or structural market shifts. On our numbers, the office portfolio accounts for ~45% of rents. Of this figure, around 23% is traced to the stable public sector, which corresponds to ~10% of portfolio RI.

Retail rents make up 8% of portfolio RI but this is largely anchored by large grocers and has low exposure to high street retail. Another 7% of RI stems from logistics and industrial, which are benefiting from pandemic tailwinds thanks to the e-commerce boom.

Factoring in 40% of Grand City's annualised rental income (€352m), the residential landlord, generates around 12% of AT's rental income. Grand City reported only minor interruption of rents paid in Q2.

Hotels account for 28% of RI and are coming back online although the recovery looks slow at this point. We extensively covered risks to hotels in our update of 6 April 2020 and retain the views expressed then.

WHAT WILL BE THE NEW OFFICE NORM?

We are in the midst of the largest home-working experiment in history and see some risk of remote working trends braking frothy occupier demand. Corporates are reporting high investment into IT and communication infrastructures to support longer-term working-from-home (WFH) initiatives. This raises the question as to whether the increased shift towards WFH will permanently reduce demand for office space. We have modelled a flexible workspace to explore this issue.

But first, workforce mobility is nothing new We believe the market falsely assumes that corporates largely operated pre-pandemic on a fixed workplace basis with a mandatory attendance policy. Workforce mobility and flexibility concepts date back to 2013 and have been increasing in popularity for years leading to the introduction of "hoteling" or "hot-desking". With these office management schemes workers are not assigned their own desks.

Hoteling allows workers to reserve a desk for their temporary use for the days they expect to work in the office, whereas hot-desking means any employee can grab any open desk while in attendance. The latter concept can be a bit of a free-for-all, although both require similar square meterage. Given these trends, our hybrid model assumes that occupiers already operate a flexible model that they plan to expand over the near term.

Hub & Club model We look at the potential impact on floor space demand with widespread adoption of flexible work policies. Hub & Club is a hybrid workplace model that buckets staff into four categories: (1) "Hub" employees require a fixed desk and are in attendance every day; (2) "Club" workers have flexible roles that involve in-person and virtual meetings; they are allowed to split time between the main office and secondary locations; (3) "Home" staff are set up to work from home 2-3 days per week; and (4) "Roam" employees are mainly on the road to conduct value-add meetings; they use hot-desks when visiting HQ or satellite offices.

OVERVIEW OF SIMULATION PARAMETERS

Table 8: Recalibrating the workplace

	Old		Future		
	Ratio	Headcount	Ratio	Headcount	*Variance*
Corporate staffing	**100%**	**400**	**100%**	**400**	***0%***
thereof are:					
Hub workers	79%	316	65%	260	*-18%*
Home workers	15%	60	25%	100	*67%*
Club workers	1%	4	5%	20	*400%*
Roam workers	5%	20	5%	20	*0%*

Source: First Berlin Equity Research estimates

In our model, we have assumed occupiers operated with a 15% remote working factor and that 5% of staff was roaming (travelling, on holiday, etc) pre-pandemic. We also think secondary offices will become a greater portion of corporate footprints but this remains a small factor in the overall equation.

Table 9: Base scenario Impact on required workspace

	Unit	Old	Future	*Variance*
Stations for hub office	#	316	260	*-18%*
Floor space per workstation	m²	6	8	*25%*
Total hub workspace	m²	1,896	1,950	*3%*
Secondary stations for club workers	m²	2	10	*400%*
Total secondary office workspace	m²	12	75	*525%*
Total required space	m²	1,908	2,025	*6%*
Capacity for staff growth	%	10	5	*-50%*
Required floor space	**m²**	**2,099**	**2,126**	***1%***

Source: First Berlin Equity Research estimates

Our base model assumes: (1) home workers will account for 25% of overall staff in the future; (2) hub office staff and fixed workstations will decline 18%; (3) occupiers will expand the square meterage per workstation from 6 to 8 (+25%) to offer better distancing; (3) a 50% hot-desk factor for Club workers; and (5) that expansion growth will decrease 50%. The net result is a 1% increase in overall workspace demand.

Our bear model assumes: (1) home workers will account for 30% of overall staff in the future; (2) hub office staff and fixed workstations will decline 24%; (3) occupiers will expand the square meterage per workstation from 6 to 7 (+20%) to offer better distancing; (3) a 50% hot-desk factor for Club workers; and (5) that expansion growth will decrease 50%. The net result is a 10% decrease in overall workspace demand.

Our bull model assumes: (1) home workers will account for 20% of overall staff in the future; (2) hub office staff and fixed workstations will decline 11%; (3) occupiers will expand the square meterage per workstation from 6 to 8 (+25%) to offer better distancing; (3) a 50% hot-desk factor for Club workers; and (5) that expansion growth will decrease 25%. The net result is an 11% rise in overall workspace demand.

Table 10: Summary of WFH scenario drivers and impact on required office space

	Base	Bear	Bull
WFH ratio	25%	30%	20%
Increase in m² per workstation	25%	20%	25%
Expansion capacity for new staff	-50%	-50%	-25%
Impact on required m²	**1%**	**-10%**	**11%**

Source: First Berlin Equity Research estimates

The upshot Although the pendulum is swinging towards more WFH initiatives, we suspect it will take several years for these factors to play out making it far too early predict with any precision where the new WFH / office equilibrium will land. But frequent headlines about ramped up WFH initiatives have hurt sentiment for office landlords.

Allianz boss, Oliver Bäte, recently went on record that up to 40% of the insurer's staff would be based at home in the future. Facebook has made similar boasts: 50% remote work force in five years. We think the current euphoria gripping large corporates and staff over the success of WFH initiates will wear off and sober up bold remote working projections.

We argue that urbanites with reasonable commutes (< 30 minutes) will gravitate back to the headquarters and satellite offices, once the pandemic is under control and FOMO (fear of missing out) effects override the novelty of working from the kitchen table. In this regard, we think Aroundtown is well positioned with its centrally located office buildings that remain appealing to ambitious urbanites. We have therefore not made any major changes to our mid-term office outlook based on WFH risks and think investor concerns will also abate.

RENT IS NOT A MAJOR CORPORATE COST DRIVER IN GERMANY

Aside from the WFH / m²-demand debates, office rent does not account for as high a proportion of corporate overhead in Germany as in other European metropolises. German office rents are cheaper than Paris, Madrid and London, meaning corporates have less to gain in overhead savings by whittling down office space.

Berlin rent is far cheaper than other European capitals The German capital accounts for 25% of Aroundtown's office portfolio. Market watcher, JLL, priced central Berlin rents at €26.8/m² on average (top: €37/m²). This compares to €117/m² for central London, and €73/m² for central Paris according to BNP.

It therefore makes little sense for their occupiers to look to shave real estate costs by relocating, which is tricky given the city's low vacancy rate of ~1.9%. Rather than move to a smaller space, we see corporates adopting a higher ratio of flexible work stations and floor plans with increased spacing.

SECOND QUARTER RESULTS

Like for like (LFL) growth of 3.0% was driven by in-place rent of 3.2% and minus 0.2% occupancy. The latter was hurt by low letting activity in Q2 during the lockdown. AT still booked lettings of some 128k m² in H1 entailing 65% lease extensions and 35% new lettings.

Table 11: Second quarter results vs FBe and prior year

All figures in EURm	Q2/20	Q2/20E	*variance*	Q2/19	*variance*	6M/20	6M/19	*variance*
Recurring LT net rental income	265	224	*18%*	179	*48%*	498	355	*40%*
Net rental income	266	225	*18%*	181	*47%*	502	359	*40%*
Adjusted EBITDA commercial, recurring LT	220	187	*18%*	150	*46%*	417	298	*40%*
Margin	*83%*	*83%*	-	*84%*	-	*84%*	*84%*	-
Adjusted EBITDA	262	225	*16%*	185	*42%*	500	363	*38%*
FFO 1	165	140	*18%*	121	*36%*	312	239	*31%*
FFOPS 1 (€)	0.12	0.10	*18%*	0.11	*10%*	0.23	0.21	*10%*
FFO 1 (covid-19 adjusted)	130	n.a.	-	n.a.	-	277	239	*16%*
FFOPS 1 (covid-19 adjusted) (€)	0.10	n.a.	-	n.a.	-	0.21	0.21	*0%*

Source: First Berlin Equity Research; Aroundtown

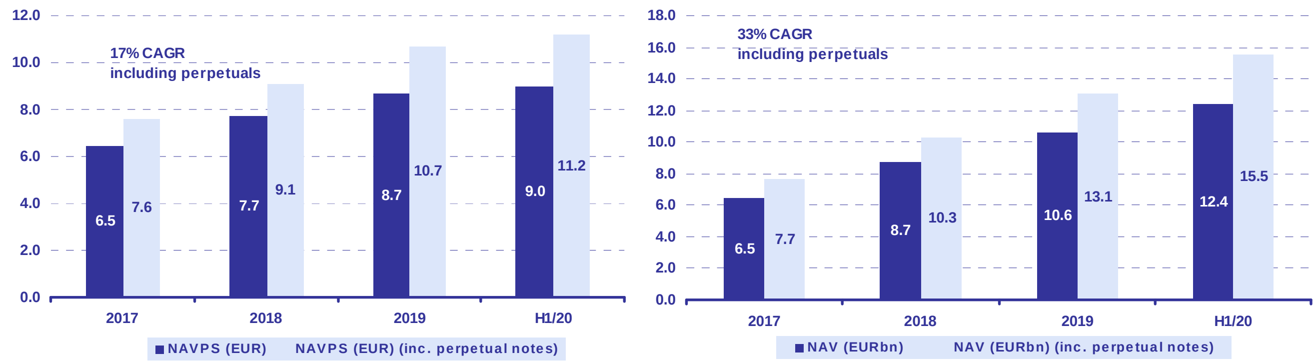
Recurring LT net rental income climbed 40% Y/Y to €498m in H1, thanks mainly to the TLG takeover. ‘Adjusted EBITDA commercial, recurring long term’ which reflects recurring operational profit excluding capital gains and revaluation effects, also rose 40% Y/Y to €417m. Including the GCP contribution, adjusted EBITDA equalled €500m (+38%).

On a quarterly basis, all headline figures topped our estimates on higher collection rates. FFO 1 beat FBe by 18% and climbed 36% Y/Y to €165m equating to FFOPS 1 of €0.12 (+10%). The company also made a €35m extraordinary rental provision related to deferred rents. Adjusted FFO 1 thus amounted to €130m (€0.10 per share), and management now guide for covid-19 adjusted FFOPS 1 after perpetuals of €0.25 to €0.28.

Revaluations could have been far worse Property revaluations and capital gains slumped by 17% Y/Y and totalled €564m for the six month period (H1/19: €679m) including gains of €766m for non-hotel assets offset by a €-206m hotel devaluation. Some 95% of the hotel portfolio was revalued in H1 after management pulled forward some assessments to get a sense of the pandemic effects. The company will consider a second evaluation this year pending market developments.

Revaluations were up 2.5% on a LFL basis, or 4.7% excluding hotels. LFL for hotels totalled minus 3.4%. Based on this early look at pandemic effects, we have adjusted our revaluation assumptions to levels more consistent with the current environment.

Figure 1: EPRA NAVPS and EPRA NAV developments



Source: First Berlin Equity Research; Aroundtown

As of 30 June, EPRA NAV totalled €12.4bn (€9.0 / share) compared to €10.6bn at year end 2019 (€8.7 / share, +3%). NAV growth owes predominantly to the net profit of €626m recorded for the six month period. Including the perpetual notes, which are classified as equity under IFRS, this KPI stood at €11.5bn or €11.2 / share (+5% YTD).

Table 12: Financial highlights

All figures in EURm	Q2/20	2019	*variance*
Cash and liquid assets	2,711	3,044	*-11%*
Investment property	22,648	18,114	*25%*
Total assets	32,192	25,445	*27%*
Net debt	9,533	6,985	*36%*
Total equity	16,445	13,379	*23%*
Equity ratio	51%	53%	-
EPRA NAV	12,389	10,633	*17%*
EPRA NAV inc perpetual notes	15,508	13,117	*18%*
Loan-to-Value (LTV)	36%	34%	-

The debt structure featured an LTV of 36% alongside a 1.6% average cost of debt with a 6.2 year maturity. Liquid assets were €2.7bn, giving the company good financial flexibility to jump on market opportunities that may arise or buffer against the economic downturn. The interest coverage ratio (ICR) and unencumbered asset ratio stood at 4.5x and 74% respectively at the end of Q2. Management confirmed financial firepower of €3bn and a €0.5bn pipeline, while keeping the LTV below 45%.

Latest on the dividend and share buyback No decision has been made regarding the postponed dividend. At this juncture we do not think AT will pay out a dividend on 2019 earnings, given overall market uncertainties and the desire to husband cash for opportunities that may arise should distressed rivals need to sell attractive properties. But this may take until early 2021 to play out.

The company has worked through about a quarter of the allotted €500m buy back program and bought shares at a weighted average price of €5.01 according to updates. We expect AT to exhaust this budget by YE and even top up the buy back coffers with disposal proceeds in Q1/21 if the current discount to NAV persists.

The aforementioned public offer to repurchase up to 165m shares between €4.6 and €5.0 per share will kick off on 3 September and run until 16 September. We will adjust our share count on the final tally.

Table 13: Guidance vs FBe and 2019 including disposals and covid-19 effects

	Unit	2020 Guidance	2019 Actual	2020E
FFO 1 after perpetual notes	€m	460-485	446	470
FFOPS 1 after perpetual notes	€	0.34-0.36	0.38	0.35
FFOPS 1 after perpetual notes, covid ad	€	0.25-0.28	0.38	0.27

Source: First Berlin Equity Research; Aroundtown

Aroundtown published initial guidance for the year, which includes YTD signed deals and a further €1bn in net sales for 2020. The outlook also factors in one-off covid-19 effects for the current year.

Table 14: Updated FBe and price target

	old	new	*revision*	*upside*	*dividend yield*	*total upside*
Price target (€)	**10.0**	**8.6**	***-14.0%***	***86.7%***	***6.1%***	***92.8%***
		2020E			**2021E**	
in €m	**Old**	**New**	***variance***	**Old**	**New**	***variance***
Net rent (NRI)	909	953	*4.9%*	1,216	1,132	*-6.9%*
Revaluations	560	659	*17.8%*	1,056	364	*-65.5%*
Adj. EBITDA, commercial	700	761	*8.7%*	1,022	932	*-8.8%*
margin	*77%*	*80%*	*-*	*84%*	*82%*	*-*
FFO 1 after perpetuals; covid adjusted	-	361	*n.a.*	679	620	*-8.7%*
Margin	*n.a.*	*38%*	*-*	*56%*	*55%*	*-*
FFOPS 1 after perpetuals; covid adjusted (€)	-	0.27	*n.a.*	0.50	0.44	*-8.7%*

Source: First Berlin Equity Research estimates

Recalibrated forecasts Based on the initial insights into the impact of covid-19 on valuations, we have adjusted our assumptions more in line with the current environment. N1 net rent and revaluations overshot our targets, and we bumped up 2020 FBe figures. We also factor in lower revaluation results in 2021 and 2022. Other forecast revisions include: (1) €2bn in 2020 disposals, which account for the decline in 2021 FBe; (2) a €110m extraordinary deferred rent provision accounting for the rise in 2020 operating expenses; and (3) the introduction of 2020 covid-19 adjusted FFOPS 1 (after perpetual notes) estimate.

VALUATION MODEL

Crises are a good sorting mechanism, and we expect Aroundtown to emerge among the winners. The company features a robust capital structure and the diversity of its portfolio that contains centrally located office properties, strong tenant bases throughout its asset groups, and exposure (GCP) to the highly resilient residential sector will spur upside once poor sentiment reverses. Our reduced price target to €8.6 reflects the view that the near-term environment will remain challenging for property valuations. However, AT does not operate a short-term driven business model, and management have an excellent track record of building long-term value during troubled times having set the foundation of Aroundtown during the 2008/2009 financial crisis. Our rating remains Buy.

in €m	2020E	2021E	2022E	2023E	TV
EBITDA	761	932	987	1,060	1,071
(+) Revaluations	659	364	460	686	202
(+) Investment income (GCP)	105	115	120	125	126
(-) Tax expense	65	79	83	89	90
NOPAT	**1,460**	**1,333**	**1,483**	**1,782**	**1,309**
Total assets	**30,879**	**32,462**	**33,198**	**34,411**	**34,411**
(-) Current liabilities	1,130	1,123	1,143	1,172	1,172
(+) Current financial debt	328	328	328	328	328
(-) Cash	3,082	2,832	2,159	2,104	2,104
(+) Deferred taxes	1,219	1,267	1,330	1,426	1,426
Capital employed (CE)	**28,214**	**30,103**	**31,554**	**32,890**	**32,890**
Average CE	25,942	29,159	30,828	32,222	32,890
ROCE	5.6%	4.6%	4.8%	5.5%	4.0%
WACC	4.0%	4.0%	4.0%	4.0%	4.0%
ROCE-WACC	1.6%	0.6%	0.8%	1.5%	0.0%
Economic Profit	427	171	255	498	-1
NPV	**422**	**163**	**233**	**437**	**-39**
Fair value calculation					
Total return	**1,216**				
(+) NAV[1] (2019)	10,633				
(-) Dividend to be paid	431				
Equity value	**11,419**				
Diluted SO (m)[2]	1,328				
Fair value per share (€)	**8.60**				

[1] excluding perpetual notes; [2]share count excludes shares with suspended voting rights

Target price (€)	**8.60**	
Share price (€)	4.61	
Return potential	86.7%	
Dividend yield	6.1%	
Total return potential	**92.8%**	

INCOME STATEMENT

All figures in EURm	2017	2018	2019	2020E	2021E	2022E
Net rent	**449**	**633**	**766**	**953**	**1,132**	**1,178**
Operating and other income	78	114	129	168	200	208
Rental and operating income (RI)	**527**	**747**	**895**	**1,121**	**1,332**	**1,386**
Capital gains, property revaluations & other	1,327	1,536	1,218	659	364	460
Result from equity-accounted investees	228	252	299	199	167	170
Property OpEx	-147	-219	-228	-416	-360	-360
Administration & other OpEx	-15	-23	-27	-56	-43	-42
Operating income (EBIT)	**1,920**	**2,294**	**2,156**	**1,508**	**1,461**	**1,614**
Net financial result	-70	-115	-142	-188	-183	-195
Other financial expenses	-15	-94	46	-55	10	0
Pre-tax income (EBT)	**1,836**	**2,085**	**2,060**	**1,265**	**1,288**	**1,419**
Tax expense	-34	-44	-71	-84	-100	-106
Deferred tax	-263	-213	-280	-198	-55	-69
Tax result	**-297**	**-257**	**-351**	**-282**	**-155**	**-175**
Comprehensive net income	**1,539**	**1,828**	**1,709**	**983**	**1,133**	**1,244**
Minority interests	228	161	343	197	227	249
Perpetual notes	29	46	58	90	90	90
Net income to owners	**1,283**	**1,620**	**1,308**	**697**	**817**	**906**
Basic EPS (€)	1.56	1.54	1.12	0.54	0.60	0.67
Diluted EPS (€)	1.35	1.49	1.11	0.54	0.60	0.67
Adjusted EBITDA commercial	**339**	**509**	**641**	**761**	**932**	**987**
Ratios						
Adj EBITDA commercial margin	81.7%	80.9%	83.7%	79.9%	82.3%	83.7%
Tax rate	7.8%	7.3%	9.1%	9.5%	9.5%	9.5%
Expenses as % of revenues						
Property OpEx	27.9%	29.3%	25.5%	37.1%	27.0%	26.0%
Administration & other OpEx	2.8%	3.0%	3.1%	5.0%	3.2%	3.0%
Y/Y Growth						
Revenues	92.6%	41.7%	19.8%	25.3%	18.8%	4.1%
Operating income	73.5%	19.4%	-6.0%	-30.1%	-3.1%	10.4%
Adjusted EBITDA	74.3%	50.1%	25.9%	18.7%	22.5%	5.9%
Net income/ loss	76.1%	26.3%	-19.3%	-46.7%	17.3%	10.9%
Funds from Operations (FFO)						
Adjusted EBITDA commercial portfolio	**339**	**509**	**641**	**761**	**932**	**987**
Finance expense	-70	-115	-142	-188	-183	-195
Tax expense	-34	-44	-71	-84	-100	-106
Minority adjustment	-9	-7	-17	-37	-57	-57
Other adjustments	10	8	3	4	4	4
FFO 1 commercial (long-term recurring)	**237**	**339**	**415**	**456**	**595**	**632**
Adjustment for GCP & other contributions	56	67	89	105	115	120
FFO 1	**293**	**406**	**503**	**561**	**710**	**752**
FFO 1 (after perpetuals)	**264**	**360**	**446**	**471**	**620**	**663**

BALANCE SHEET

All figures in EURm	2017	2018	2019	2020E	2021E	2022E
Assets						
Current assets, total	**1,523**	**2,102**	**3,743**	**3,976**	**3,804**	**3,151**
Cash and cash equivalents	736	1,243	2,192	3,082	2,832	2,159
Short-term investments	99	366	878	318	318	318
Receivables	163	277	454	415	493	513
Other current assets	18	5	5	5	5	5
Assets held for sale	508	211	214	155	155	155
Non-current assets, total	**12,247**	**16,939**	**21,702**	**26,904**	**28,658**	**30,047**
Property, plant & equipment	26	33	20	20	21	21
Investment properties	9,804	14,174	18,127	23,030	24,642	25,902
Equity accounted investees	1,906	2,215	2,506	2,828	2,939	3,050
Other LT assets	512	517	1,049	1,026	1,056	1,074
Total assets	**13,770**	**19,041**	**25,445**	**30,879**	**32,462**	**33,198**
Shareholders' equity & debt						
Current liabilities, total	**566**	**606**	**857**	**1,130**	**1,123**	**1,143**
Short-term debt	17	27	246	328	328	328
Accounts payable	267	451	343	480	460	467
Provisions & other current liabilities	282	128	268	321	334	348
Long-term liabilities, total	**5,955**	**8,491**	**11,209**	**13,654**	**14,565**	**14,588**
Long-term debt	5,078	7,444	9,759	11,998	12,845	12,789
Deferred tax liabilities	752	882	1,107	1,305	1,360	1,429
Other LT liabilities	125	164	342	351	361	370
Minority interests	674	567	1,309	2,152	2,378	2,627
Shareholders' equity	**6,576**	**9,377**	**12,070**	**13,943**	**14,396**	**14,840**
Total consolidated equity and debt	**13,770**	**19,041**	**25,445**	**30,879**	**32,462**	**33,198**
Ratios						
ICR (x)	5.4	4.7	5.3	4.6	5.6	5.6
Equity ratio	52.6%	52.2%	52.6%	52.1%	51.7%	52.6%
EPRA NAV[1]	6,483	8,742	10,633	12,129	12,633	13,144
EPRA NAVPS[1] (€)	6.5	7.7	8.7	9.0	9.3	9.7
Net debt	4,400	5,871	6,985	8,920	10,017	10,634
Return on equity (ROE)	23.4%	19.5%	14.2%	7.0%	7.9%	8.4%
Loan-to-value (LTV)	35.9%	35.3%	33.5%	34.0%	35.8%	36.2%
Dividend cover	1.5	1.5	1.5	1.5	1.5	1.5

[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 & oth	-1,327	-1,536	-1,218	-659	-364	-460
Profit share from equity accounted investe	-228	-252	-299	-199	-167	-170
Shared based payment in a subsidiary	2	3	5	0	0	0
Net finance expenses	85	208	96	243	173	195
Tax result	297	257	351	282	155	175
Operating cash flow	**369**	**510**	**646**	**628**	**1,448**	**1,236**
Changes in working capital	-13	-39	-34	151	-113	-24
Provisions for other liabilities	-2	-3	-3	53	12	13
Dividend received	41	51	61	55	56	60
Tax paid	-33	-46	-57	-84	-100	-106
Net operating cash flow	**362**	**473**	**614**	**803**	**1,303**	**1,178**
CapEx/ intangibles	-9	-5	-3	-3	-3	-3
Disposal/ investment in investment properties, net	-615	-915	-538	689	-1,247	-801
Acquisition/disposals of subsidiaries	-1,946	-1,829	-1,773	0	0	0
Proceeds from investments in financial as	-184	-175	-576	563	4	4
Cash flow from investing	**-2,754**	**-2,924**	**-2,890**	**1,249**	**-1,247**	**-800**
Debt financing, net	1,165	2,588	2,148	-591	847	-56
Equity financing, net	866	601	596	-500	0	0
Dividends paid	-155	-226	-209	-327	-365	-461
Other financing activities	682	87	854	-90	-90	-90
Net paid financing expenses	-66	-97	-161	-188	-183	-195
Cash flow from financing	**2,492**	**2,953**	**3,228**	**-1,696**	**209**	**-801**
Net cash flows	**100**	**501**	**952**	**357**	**266**	**-424**
Assets held for sale - cash	-5	5	-3	0	0	0
Fx effects	0	-1	1	0	0	0
Cash & equivalents from TLG	0	0	0	510	0	0
Cash, start of the year	**641**	**736**	**1,243**	**2,192**	**3,082**	**2,832**
Cash, end of the year	**736**	**1,242**	**2,193**	**3,058**	**3,348**	**2,408**
Adj. EBITDA commercial / share (€)	0.41	0.47	0.55	0.59	0.69	0.73
FFO 1	293	406	503	561	710	752
FFOPS 1 (€)	0.36	0.39	0.43	0.44	0.52	0.56
FFOPS 1 after perpetuals (€)	0.32	0.34	0.38	0.35	0.44	0.47
Y/Y Growth						
EBITDA/share		14.4%	15.5%	8.4%	16.6%	5.9%
FFO 1		38.5%	24.1%	11.4%	26.6%	6.0%
FFOPS 1 (€)		8.1%	11.0%	1.7%	20.5%	6.0%

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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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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	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	2 June 2020	€5.17	Buy	€10.00
40	Today	€4.61	Buy	€8.60

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