

Aroundtown SA

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

Update

RATING
BUY

PRICE TARGET
€ 8.60

Return Potential 103.1%
 Risk Rating Medium

RESULTS OF PUBLIC SHARE PURCHASE OFFER

Aroundtown announced results of its public share purchase—up to 165m shares between €4.6 and €5.0 per share. Some 121.3m shares were tendered falling slightly short of the 125m required minimum volume meaning the final purchase price is set at €5.0. The company will continue to deploy proceeds from non-core property disposals for the €500m buyback program announced 2 June, and the volume will be adjusted to a maximum of €393.3m to maintain the combined maximum €1bn buyback volume. Our rating remains Buy with an €8.6 price target.

Rationale for share buyback is good The company is selling off non-core (mostly retail) assets inherited from TLG for attractive gains (~6% > book value). The disposal pipeline remains full, and we look for disposals to approach €2bn by YE. AT shares now trade some 53% below Q2/20 NAV (€9.0). Until the commercial property market shakes out on the other side of the pandemic, we think the buyback is a good use of disposal proceeds to create long-term value.

Initial signs of portfolio stability The hotel sector is showing early signs of a bounce back, evidenced by the uptick in hotel rent collections to 33% in July vs 21% in Q2, although the full recovery will take some time. We also believe downward spiralling sentiment regarding the future of office work is levelling off. Workers are indeed returning to the workplace, and we stick to our argument that FOMO (fear of missing out) effects will ultimately prevail over the convenience and novelty of working from home.

AT stock back near April '20 lows Poor sector sentiment was exacerbated by Unibail's plan to "reset" its business. In our view, the renewed weakness in AT shares fails to capture the company's solid fundamental profile we outlined in our note of 1 September 2020. Although we acknowledge that AT faces new challenges in the current environment, we believe the company is in an excellent position to weather covid-19 turbulence 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 NAV ¹ (€m)	7,656.28	10,290.10	13,117.48	15,237.61	15,742.36	16,253.09
NAVPS ¹ (€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.

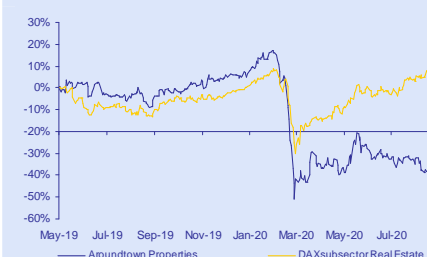
MARKET DATA

As of 21 Sep 2020

Closing Price	€ 4.23
Shares outstanding	1537.02m
Market Capitalisation	€ 6507.74m
52-week Range	€ 3.70 / 8.84
Avg. Volume (12 Months)	4,955,556

Multiples	2019	2020E	2021E
P/FFO 1	9.9	9.7	8.1
P/EPRA NAV	0.4	0.4	0.4
FFO 1 Yield	10.1%	10.3%	12.4%
Div. Yield	6.6%	6.7%	8.1%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2020

Liquid Assets	€ 2,711.00m
Current Assets	€ 4,245.00m
EPRA NAV ¹	€ 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	15.0%
Avisco Group	10.0%
Blackrock	5.1%
Free Float	69.9%



VALUATION MODEL

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	423	163	234	438	-39
Fair value calculation					
Total return	1,219				
(+) NAV ¹ (2019)	10,633				
(-) Dividend to be paid	431				
Equity value	11,422				
Diluted SO (m) ²	1,328				
Fair value per share (€)	8.60				

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



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 & other	-1,327	-1,536	-1,218	-659	-364	-460
Profit share from equity accounted investee	-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 assets	-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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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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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 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

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...32	↓	↓	↓	↓
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	1 September 2020	€4.61	Buy	€8.60
41	Today	€4.23	Buy	€8.60

INVESTMENT HORIZON

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

UPDATES

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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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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