

Aroundtown SA

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

Update

RATING	BUY
PRICE TARGET	€ 8.60
Return Potential	51.6%
Risk Rating	Medium

COVID-19 RESURGENCE SHOULDN'T DISTRACT FROM THE POSITIVES

We believe AT shares still have substantial recovery upside as the pandemic plays out. Aroundtown stock was routed last year as covid-19 fears triggered questions about the resilience of the commercial portfolio. Although surging infection numbers and questions about new mutations of the corona virus make predictions about a return to normalcy difficult, we believe the concerns about AT's ability to weather the pandemic have been answered and think the stock will continue its strong recovery in 2021. We reiterate our Buy rating and €8.6 price target.

Reasons to be optimistic We see several factors that support our optimism: (1) best in class capital structure with high liquidity after recent issuances; (2) operational resilience despite the drag of the hampered hotel portfolio; (3) an optimised portfolio with good embedded reversionary upside thanks to €2.7bn in disposals of non-core and mature assets in 2020; (4) an uptick in business travel and domestic tourism in Q3 assuming no worst case scenario on recent covid-19 / vaccine developments; (5) WFH (work from home) fears of a complete disruption of the office sector continue to fade; and (6) opportunistic acquisitions to further strengthen the portfolio. Although the ability to travel remains the wild card in the equation, we believe the stock will recover regardless of the timing of hotels coming fully back online (see overleaf).

Balance sheet looks stronger than pre-pandemic levels Thanks to a series of issuances, we estimate AT's liquidity at around €3.8bn. This compares to YE19 cash and liquid assets of €3.0bn. While several commercial rivals have struggled to refinance debt or raise new equity during the pandemic, Aroundtown was able to inject some €1.6bn in new low cost liquidity into its balance sheet the past months. In December, the company placed a €1bn bond at 0.0% to repay some €0.6bn in 1.5% bonds and issued 1.625% perpetuals notes for €0.6bn in January. AT also bought back €230m of its 3.75% hybrid notes in . . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Net rent (€m)	448.98	633.00	765.70	947.81	993.91	1,076.41
Adj. EBITDA (€m)	339.0	508.9	641.0	756.8	804.2	888.7
Net income (€m)	1,539.00	1,827.80	1,709.10	860.75	1,274.79	1,394.00
EPS (diluted) (€)	1.6	1.54	1.12	0.5	0.81	0.90
EPRA NAV ¹ (€m)	7,656.28	10,290.10	13,117.48	14,869.27	15,499.89	16,253.14
NAVPS ¹ (€m)	8.08	9.12	10.72	12.94	13.02	13.65
DPS (€)	0.23	0.25	0.14	0.25 ²	0.32	0.37
FFO 1 (€m)	293.00	405.74	503.40	551.02	577.59	665.79
FFOPS 1 (€)	0.36	0.39	0.43	0.42	0.50	0.57
Liquid assets (€m)	852.44	1,613.90	3,074.70	3,734.45	3,846.52	2,911.81

¹ includes perpetual notes; ² based on covid adjusted FFO 1

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 Jan 2021

Closing Price	€ 5.67
Shares outstanding	1537.02m
Market Capitalisation	€ 8717.98m
52-week Range	€ 3.70 / 8.84
Avg. Volume (12 Months)	5,449,294

Multiples	2019	2020E	2021E
P/FFO 1	13.1	13.4	11.3
P/EPRA NAV	0.5	0.4	0.4
FFO 1 Yield	7.6%	7.5%	8.9%
Div. Yield	2.5%	4.4%	5.7%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2020

Liquid Assets	€ 2,507.00m
Current Assets	€ 4,759.00m
EPRA NAV ¹	€ 15,442.00m
Investment properties	€ 21,769.00m
Current Liabilities	€ 1,078.00m
Total Equity	€ 16,511.00m

¹ including perpetual notes

SHAREHOLDERS

Treasury shares*	25.0%
Avisco Group	10.0%
Blackrock	5.1%
Free Float	59.9%

* 12% are held through TLG Immobilien AG, voting rights suspended



. . . conjunction with hybrid placement. The optimised capital structure will save the company some €9m in annual interest, which we have factored into our numbers along with the issuances and repayments. Full coffers give management plenty of flexibility to ride out the current lockdowns and react opportunistically to market developments in the year ahead.

Investor confidence is improving The company once again offered shareholders a scrip dividend in lieu of a €0.14 per share cash payout. Some 43% of shareholders (491m shares) opted for new shares at €5.19. In our view, this underlines expectations of a further recovery in AT's market value.

German office market less vulnerable than other markets to WFH trends Office rent does not account for as high a proportion of corporate overhead in Germany as in other European metropolises. German office rents are much cheaper than Paris, Madrid and London, meaning corporates have less to gain in overhead savings by whittling down office space. This fact is beginning to be better understood by the capital markets, and we expect the drag on sentiment to continue to dissipate.

German hotel market ranks among least volatile in Europe Even if tourism remains limited to domestic travel this summer, this plays into the strength of Aroundtown's hotel assets which have historically catered to domestic getaway seekers (> 80% of German and UK hotel bookings; >60% of Netherlands). Plus, our checks with industry medical experts support optimistic views on the efficacy of the vaccine, although new mutations out of South Africa for example remain an unknown factor. This could boost long-haul travel later in the year.



VALUATION

We see several triggers for further stock recovery this year. The stock trades at a highly attractive 63% discount to 9M/20 NAVPS (€9.3). While the re-opening of hotels could supercharge the share price, we do not believe the upside hinges solely upon a full recovery of the hospitality sector this year.

In our view, AT has demonstrated its ability to steer through the pandemic. If the current resurgence persists longer than we all hope, we have a high degree of confidence in management's ability to adapt to the unknowns that lie ahead this year. We remain Buy-rated on AT with an €8.6 price target.

in €m	2020E	2021E	2022E	2023E	TV
EBITDA	757	804	889	974	984
(+) Revaluations	795	688	740	1,033	305
(+) Investment income (GCP)	105	115	120	125	126
(-) Tax expense	65	69	76	82	83
NOPAT	1,592	1,539	1,673	2,049	1,332
Total assets	30,999	32,902	33,913	35,424	35,424
(-) Current liabilities	923	877	912	932	932
(+) Current financial debt	127	127	127	127	127
(-) Cash	3,351	3,458	2,518	2,400	2,400
(+) Deferred taxes	1,949	2,040	2,138	2,279	2,279
Capital employed (CE)	28,802	30,735	32,749	34,498	34,498
Average CE	26,235	29,768	31,742	33,623	34,498
ROCE	6.1%	5.2%	5.3%	6.1%	3.9%
WACC	4.1%	4.1%	4.1%	4.1%	4.1%
ROCE-WACC	2.0%	1.1%	1.2%	2.0%	-0.2%
Economic Profit	529	332	386	686	-67
NPV	529	320	358	611	-2,368
Fair value calculation					
Total return	-551				
(+) NAV ¹ (2019)	10,633				
(-) Dividend to be paid	108				
Equity value	9,975				
Diluted SO (m) ²	1,160				
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 (€)	5.67				
Return potential	51.6%				
Dividend yield	4.4%				
Total return potential	56.1%				



INCOME STATEMENT

All figures in EURm	2017	2018	2019	2020E	2021E	2022E
Net rent	449	633	766	948	994	1,076
Operating and other income	78	114	129	167	175	190
Rental and operating income (RI)	527	747	895	1,115	1,169	1,266
Capital gains, property revaluations & other	1,327	1,536	1,218	795	688	740
Result from equity-accounted investees	228	252	299	199	167	170
Property OpEx	-147	-219	-228	-409	-330	-342
Administration & other OpEx	-15	-23	-27	-56	-37	-38
Operating income (EBIT)	1,920	2,294	2,156	1,644	1,658	1,796
Net financial result	-70	-115	-142	-197	-197	-189
Other financial expenses	-15	-94	46	-133	10	0
Pre-tax income (EBT)	1,836	2,085	2,060	1,314	1,471	1,607
Tax expense	-34	-44	-71	-83	-93	-102
Deferred tax	-263	-213	-280	-370	-103	-111
Tax result	-297	-257	-351	-453	-196	-213
Comprehensive net income	1,539	1,828	1,709	861	1,275	1,394
Minority interests	228	161	343	162	255	279
Perpetual notes	29	46	58	93	95	95
Net income to owners	1,283	1,620	1,308	606	925	1,020
Basic EPS (€)	1.56	1.54	1.12	0.46	0.80	0.88
Adjusted EBITDA commercial	339	509	641	757	804	889
Ratios						
Adj EBITDA commercial margin	81.7%	80.9%	83.7%	79.9%	80.9%	82.6%
Tax rate	7.8%	7.3%	9.1%	9.5%	10.0%	10.0%
Expenses as % of revenues						
Property OpEx	27.9%	29.3%	25.5%	36.7%	28.2%	27.0%
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%	24.6%	4.9%	8.3%
Operating income	73.5%	19.4%	-6.0%	-23.7%	0.8%	8.3%
Adjusted EBITDA	74.3%	50.1%	25.9%	18.1%	6.3%	10.5%
Net income/ loss	76.1%	26.3%	-19.3%	-53.7%	52.7%	10.3%
Funds from Operations (FFO)						
Adjusted EBITDA commercial portfolio	339	509	641	757	804	889
Finance expense	-70	-115	-142	-197	-197	-189
Tax expense	-34	-44	-71	-83	-93	-102
Minority adjustment	-9	-7	-17	-36	-57	-57
Other adjustments	10	8	3	6	6	6
FFO 1 commercial (long-term recurring)	237	339	415	446	463	546
Adjustment for GCP & other contributions	56	67	89	105	115	120
FFO 1	293	406	503	551	578	666
FFO 1 (after perpetuals)	264	360	446	460	483	571



BALANCE SHEET

All figures in EURm	2017	2018	2019	2020E	2021E	2022E
Assets						
Current assets, total	1,523	2,102	3,743	4,740	4,873	3,981
Cash and cash equivalents	736	1,243	2,192	3,351	3,458	2,518
Short-term investments	99	366	878	378	378	378
Receivables	163	277	454	550	577	625
Other current assets	18	5	5	5	5	5
Assets held for sale	508	211	214	455	455	455
Non-current assets, total	12,247	16,939	21,702	26,259	28,028	29,932
Property, plant & equipment	26	33	20	20	21	21
Investment properties	9,804	14,174	18,127	21,995	23,637	25,401
Equity accounted investees	1,906	2,215	2,506	3,193	3,304	3,415
Other LT assets	512	517	1,049	1,052	1,067	1,096
Total assets	13,770	19,041	25,445	30,999	32,902	33,913
Shareholders' equity & debt						
Current liabilities, total	566	606	857	923	877	912
Short-term debt	17	27	246	127	127	127
Accounts payable	267	451	343	474	415	437
Provisions & other current liabilities	282	128	268	321	334	348
Long-term liabilities, total	5,955	8,491	11,209	14,279	15,454	15,519
Long-term debt	5,078	7,444	9,759	11,801	12,863	12,808
Deferred tax liabilities	752	882	1,107	2,127	2,230	2,341
Other LT liabilities	125	164	342	351	361	370
Minority interests	674	567	1,309	2,117	2,372	2,651
Shareholders' equity	6,576	9,377	12,070	13,680	14,198	14,831
Total consolidated equity and debt	13,770	19,041	25,445	30,999	32,902	33,913
Ratios						
ICR (x)	5.4	4.7	5.3	4.3	4.6	5.3
Equity ratio	52.6%	52.2%	52.6%	51.0%	50.4%	51.5%
EPRA NAV ¹	6,483	8,742	10,633	11,760	12,385	13,133
EPRA NAVPS ¹ (€)	6.8	7.7	8.7	10.2	10.4	11.0
Net debt	4,400	5,871	6,985	8,194	9,150	10,034
Return on equity (ROE)	23.4%	19.5%	14.2%	6.3%	9.0%	9.4%
Loan-to-value (LTV)	36%	35%	34%	32%	33%	34%
Dividend cover	1.6	1.5	3.1	1.7	1.5	1.5



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	2	3
Capital gains, property revaluations & other	-1,327	-1,536	-1,218	-795	-688	-740
Profit share from equity accounted investees	-228	-252	-299	-199	-167	-170
Shared based payment in a subsidiary	2	3	5	0	0	0
Net finance expenses	85	208	96	330	187	189
Tax result	297	257	351	453	196	213
Operating cash flow	369	510	646	750	1,178	988
Changes in working capital	-13	-39	-34	-4	-78	-42
Provisions for other liabilities	-2	-3	-3	-38	6	6
Dividend received	41	51	61	55	56	60
Tax paid	-33	-46	-57	-83	-93	-102
Net operating cash flow	362	473	614	680	1,069	909
CapEx/ intangibles	-9	-5	-3	-3	-3	-3
Disposal/ investment in investment properties, net	-615	-915	-538	1,560	-953	-1,024
Acquisition/disposals of subsidiaries	-1,946	-1,829	-1,773	0	0	0
Proceeds from investments in financial assets	-184	-175	-576	503	4	4
Cash flow from investing	-2,754	-2,924	-2,890	2,060	-952	-1,023
Debt financing, net	1,165	2,588	2,148	-988	1,063	-56
Equity financing, net	866	601	596	0	0	0
Payments for own shares	0	0	0	-1,000	0	0
Dividends paid	-155	-226	-209	0	-407	-387
Other financing activities	682	87	854	192	-95	-95
Net paid financing expenses	-66	-97	-161	-197	-197	-189
Cash flow from financing	2,492	2,953	3,228	-1,993	364	-727
Net cash flows	100	501	952	748	480	-841
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	3,351	3,458
Cash, end of the year	736	1,242	2,193	3,449	3,832	2,616
Adj. EBITDA commercial / share (€)	0.41	0.47	0.55	0.58	0.69	0.77
FFO 1	293	406	503	551	578	666
FFOPS 1 (€)	0.36	0.39	0.43	0.42	0.50	0.57
FFOPS 1 after perpetuals (€)	0.32	0.34	0.38	0.35	0.42	0.49
FFOPS 1 after perpetuals, covid adj. (€)	0.32	0.34	0.38	0.27	0.42	0.49
Y/Y Growth						
EBITDA/share		14.4%	15.5%	5.6%	20.6%	10.4%
FFO 1		38.5%	24.1%	9.5%	4.8%	15.3%
FFOPS 1 (€)		8.1%	11.0%	-2.1%	18.9%	15.2%

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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 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...35	↓	↓	↓	↓
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	22 September 2020	€4.23	Buy	€8.60
42	29 October 2020	€3.89	Buy	€8.60
43	27 November 2020	€5.97	Buy	€8.60
44	Today	€5.67	Buy	€8.60

INVESTMENT HORIZON

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

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