

Aroundtown SA

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

H1
 Update

RATING
BUY

PRICE TARGET
€ 8.60

Return Potential 32.9%
 Risk Rating Medium

TRACKING TOWARDS GUIDANCE BUT HOTEL RECOVERY SLUGGISH

Second quarter reporting was in line with our targets and characterised by the ongoing effects of the pandemic as well as the disposal of non-core and mature assets. Management confirmed 2021 guidance (FFOPS 1: €0.29 to €0.31) but acknowledged that a sluggish travel recovery means that 2021 hotel performance will undershoot 2020, which benefited from a pandemic-free Q1. 6M net rent tallied €458m, and FFOPS 1 was down 12% Y/Y to €0.15 mainly due to the €75m covid-19 provision. On a non-adjusted basis, FFOPS 1 increased 5% Y/Y. NTAPS edged 1% higher YTD to €9.6. We remain Buy-rated on Aroundtown with a €8.6 target price.

Hotel sector recovery still sluggish AT shares traded lower on the Q2 report and conference call, when details about the slow recovery of the hotel segment renewed investor jitters. Although most AT hotels opened post-lockdowns, demand has remained soft for domestic-corporate and international travel as well as conferences. Management acknowledged that corporate travel will not recover as long as infection fears, quarantine risks, and increased airport hassles persist. AT now expects the first significant demand uptick in 2022 and market watchers caution that a full travel recovery to pre-pandemic levels may stretch into 2023 for Germany and 2024 in the UK. AT hotels can recover from a stronger base, since domestic travel dominates the DE (>80%), UK (>80%), and NL (>60%) markets. Nevertheless, management expect 2021 hotel performance to lag 2020, which benefited from a pre-pandemic Q1.

Steady office segment unable to offset hotel weakness Lettings remain below pre-pandemic levels but office vacancy ticked down Q/Q to 11.2% (Q1: 11.3%). AT noted 90k m² in new lettings in H1/21, while prolongations topped 110k m² during the period. Corporates are leaning toward shorter leases of 3 to 5 years vs 5+ years pre-Covid-19, while the pandemic plays out. Occupiers also continue to factor workforce mobility—remote working and hybrid workplaces—into their space considerations. Although the short-term outlook. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020	2021E	2022E
Net rent (€m)	448.98	633.00	765.70	1,003.00	888.98	921.48
Adj. EBITDA (€m)	339.0	508.9	641.0	777.4	694.8	796.2
Net income (€m)	1,539.00	1,827.80	1,709.10	906.40	1,078.32	1,534.30
EPS (diluted) (€)	1.56	1.58	1.12	0.50	0.61	0.90
EPRA NTA ¹ (€m)	n.a.	n.a.	10,633.48	11,511.81	12,256.07	13,462.55
NTAPS ¹ (€m)	n.a.	n.a.	8.60	9.51	9.93	10.97
DPS (€)	0.23	0.25	0.14	0.22	0.22	0.35
FFO 1 ² (€m)	264.20	359.64	445.58	357.80	340.15	556.58
FFOPS 1 ² (€)	0.32	0.34	0.38	0.27	0.29	0.47
Liquid assets (€m)	852.44	1,613.90	3,074.70	3,287.09	3,202.84	2,196.43

¹ No NTA data reported prior to 2019 ² after perpetual and covid-19 adjustments

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 Aug 2021

Closing Price	€ 6.47
Shares outstanding	1537.02m
Market Capitalisation	€ 9947.59m
52-week Range	€ 3.89 / 7.08
Avg. Volume (12 Months)	3,388,076

Multiples	2020	2021E	2022E
P/FFO 1	23.6	22.4	13.7
P/NTA	0.7	0.7	0.6
FFO 1 Yield	4.2%	4.5%	7.3%
Div. Yield	3.4%	3.3%	5.5%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2021

Liquid Assets	€ 3,244.00m
Current Assets	€ 4,401.00m
EPRA NTA	€ 11,222.00m
Investment properties	€ 20,899.00m
Current Liabilities	€ 1,271.00m
Total Equity	€ 15,718.00m

SHAREHOLDERS

Treasury shares*	26.0%
Avisco Group	10.0%
Blackrock	5.1%
Free Float	58.9%

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



. . . looks cautious, commercial portfolio rents are well below market levels. This embedded upside buffers current in-place rents from a potentially softening market in a protracted pandemic.

SECOND QUARTER BREAKDOWN

Net rental income like-for-like (LFL) was minus 0.7%—in-place rent minus 0.2%; occupancy minus 0.5%—for the period. Adjusted for the -3.4% LFL performance for the hotel assets, the KPI totalled 0.8% including 1.4% for in-place rent and -0.6% occupancy LFL.

Table 1: Second quarter results vs FBe and prior year

All figures in EURm	Q2/21	Q2/21E	variance	Q2/20	variance	H1/21	H1/20	variance
Recurring LT net rental income	216	217	-0.4%	265	-18.5%	442	498	-11.2%
Net rental income	225	223	0.7%	266	-15.6%	458	502	-8.8%
AEBITDA commercial, recurring LT	179	178	0.6%	220	-18.6%	369	417	-11.6%
Margin (on NRI)	80%	80%	-	83%	-	81%	83%	-
AEBITDA	222	220	0.7%	262	-15.5%	452	500	-9.6%
FFO 1 (after perps; covid-19 adj.)	85	84	1.7%	107	-20.1%	172	234	-26.3%
FFOPS 1 (after perps; covid-19 adj.) (€)	0.08	0.08	1.7%	0.07	6.9%	0.15	0.17	-11.8%
FFOPS 1 (after perps; before covid-19 adj.) (€)	0.11	0.10	1.7%	0.10	2.9%	0.21	0.20	5.0%

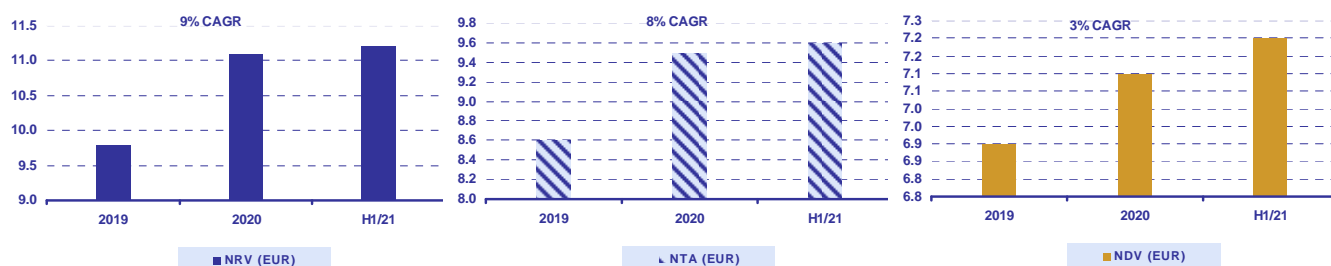
Source: First Berlin Equity Research; Aroundtown

Six month net rental income (NRI) fell 9% on an annualised basis to €458m. This owes to the significant changes to the portfolio over the past twelve months (T12) including some €3.2bn in disposals. Q2 NRI of €225m was also lower Y/Y on the same effects but in line with FBe.

'Adj. EBITDA commercial, recurring long term' which reflects recurring operational profit excluding capital gains and revaluation effects, slid 12% Y/Y to €369m in H1/21 owing chiefly to the disposal activity. Including the stable €83m GCP contribution, AEBITDA equalled €452m (-10%).

Six month FFO 1 was 26% lower Y/Y, due to the €75m Covid-19 provision (H1/20: €35m). On a non-adjusted basis, FFO 1 totalled €247m compared to €269m in the prior year period. FFO 2 hit €548m (H1/20: €340m), thanks to €376m inproperty disposals for the period. Q2 FFO 1 was in line with our estimate but lower Y/Y, while FFOPS 1 increased 7% on an annualised basis, thanks to the lower share count from the buyback.

Figure 1: Per share EPRA NAV developments



Source: First Berlin Equity Research; Aroundtown

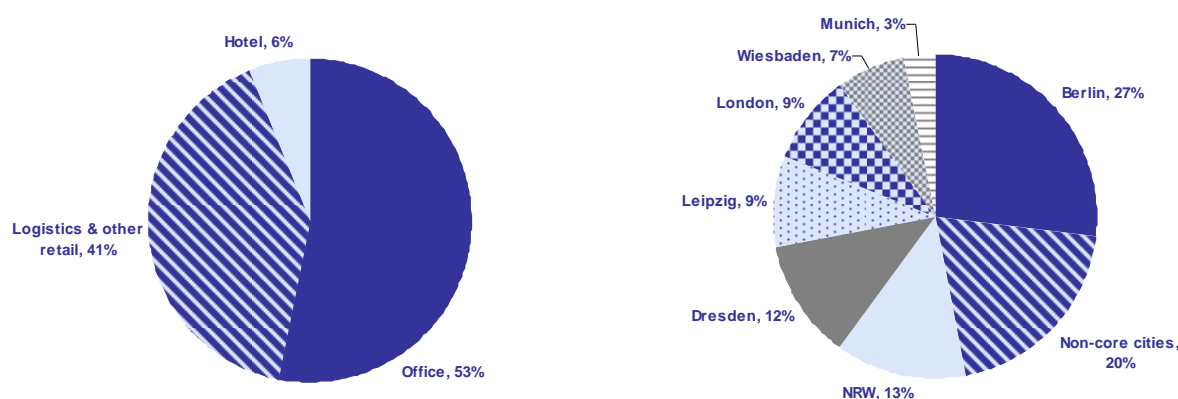
As of 30 June, EPRA NTAPS stood at €9.6 vs €9.5 at YE20 (+1%) with NTA stable at €11.4bn. Adjusted for dividends NTA was up 3% YTD. NDVPS and NRVPS showed similar 1% YTD upticks. Per share growth was positively impacted by the share buyback.

**Table 2: Financial highlights**

All figures in EURm	Q2/21	2020	variance
Cash and liquid assets	3,244	3,263	-1%
Investment property	20,899	21,172	-1%
Total assets	30,721	31,022	-1%
Net debt	8,154	8,598	-5%
Total equity	15,718	15,583	1%
Equity ratio	52%	50%	-
EPRA NTA	11,222	11,187	0%
Unencumbered asset ratio	81%	76%	-
Loan-to-Value (LTV)	33%	34%	-

Source: First Berlin Equity Research; Aroundtown

Unencumbered asset and equity ratios edge higher The debt structure includes an LTV of 33% alongside a 1.4% average cost of debt with a 5.8 year maturity. The interest coverage ratio (ICR) and unencumbered asset ratio stood at 5.0x and 81% respectively at the end of H1. The cash coverage ratio is 3x of debt maturity over the next three years. We continue to regard the robust capital structure as a major strength to mitigate pandemic volatility.

Figure 2: Breakdown of YTD disposal activity

Source: First Berlin Equity Research; Aroundtown

Disposals top €1bn; buyback in full swing AT continues to cull the commercial portfolio of non-core / mature assets and reported YTD disposals of €1.1bn at a 23x rental income multiple and 3% margin over BV. The disposal pipeline remains ~€1bn and Aroundtown continues to funnel proceeds into its €500m buyback program. Thus far, the company has purchased €187m in stock at an average price of €65 per share equal to a 30% discount to NTA.

With acquisition growth still idling in a competitive market—AT remains focused on below market transactions that embed upside—management were granted approval to expand the buyback at the recent AGM to take advantage of the deep discount to NTA.



Portfolio value (€ / m²) hits 2,831 compared to 2,665 at YE20 While the overall portfolio value is 1% lower YTD on the ongoing disposal activity, optimisation effects have increased portfolio quality spurring the 6% uplift in the € / m² metric. In-place rent is also up some 6% YTD to €11.5 / m². Berlin remains the portfolio stronghold with GAV of €4.6bn.

Table 3: Confirmed guidance

	Unit	2021 Guidance	2020 Actual	2021E
FFO 1 ¹	€m	340 - 370	358	340
FFOPS 1 ¹	€	0.29 - 0.31	0.27	0.29
DPS	€	0.22 - 0.24	0.22	0.22

¹ after perpetual attribution and covid-19 provision

Source: First Berlin Equity Research; Aroundtown

Guidance unchanged; rating remains Buy Management reiterated 2021 guidance calling for FFOPS 1 (after covid-19 adjustments) of €0.29 to €0.31. Unharnessed TLG synergies offset covid-19 provisioning now expected at ~€120m this year.

The earnings call doused market hopes of a swift recovery in the travel and leisure sectors, which are still burdened by pandemic uncertainties even with restrictions now eased. Despite the disappointment, we still believe Aroundtown is built to weather an extended pandemic storm with its diversified portfolio that includes a resilient residential component (GCP), and a robust capital structure. Our rating remains Buy with an €8.6 target price.



VALUATION MODEL

in €m	2021E	2022E	2023E	2024E	TV
EBITDA	695	796	873	926	940
(+) Revaluations	649	900	972	899	467
(+) Investment income (GCP)	119	128	134	142	144
(-) Tax expense	77	88	96	101	103
NOPAT	1,386	1,737	1,883	1,865	1,448
Total assets	30,714	31,742	34,433	35,400	35,400
(-) Current liabilities	876	804	824	861	861
(+) Current financial debt	100	100	100	100	100
(-) Cash	2,604	1,593	2,231	1,702	1,702
(+) Deferred taxes	1,919	2,040	2,171	2,289	2,289
Capital employed (CE)	29,253	31,485	33,649	35,226	35,226
Average CE	29,262	30,369	32,567	34,437	35,226
ROCE	4.7%	5.7%	5.8%	5.4%	4.1%
WACC	4.1%	4.1%	4.1%	4.1%	4.1%
ROCE-WACC	0.7%	1.7%	1.7%	1.4%	0.0%
Economic Profit	197	504	561	467	18
NPV	195	477	511	409	608

Fair value calculation

Total return	2,200
(+) NTA ¹ (2020)	11,187
(-) Dividend to be paid	233
Equity value	13,154
Fair value per share (€)	8.60

¹ net tangible assets

Target price (€)	8.60
Share price (€)	6.47
Return potential	32.9%
Dividend yield	3.4%
Total return potential	36.3%



INCOME STATEMENT

All figures in EURm	2017	2018	2019	2020	2021E	2022E
Net rent	449	633	766	1,003	889	921
Operating and other income	78	114	129	177	157	163
Rental and operating income (RI)	527	747	895	1,180	1,046	1,084
Capital gains, property revaluations & other	1,327	1,536	1,218	769	649	900
Result from equity-accounted investees	228	252	299	196	160	194
Property OpEx	-147	-219	-228	-443	-402	-293
Other income	0	0	0	0	0	70
Administration & other OpEx	-15	-23	-27	-51	-37	-33
Operating income (EBIT)	1,920	2,294	2,156	1,652	1,416	1,923
Net financial result	-70	-115	-142	-201	-160	-162
Other financial expenses	-15	-94	46	-168	0	0
Pre-tax income (EBT)	1,836	2,085	2,060	1,283	1,255	1,762
Tax expense	-34	-44	-71	-89	-80	-92
Deferred tax	-263	-213	-280	-287	-97	-135
Tax result	-297	-257	-351	-377	-177	-227
Comprehensive net income	1,539	1,828	1,709	906	1,078	1,534
Minority interests	228	161	343	165	32	46
Perpetual notes	29	46	58	90	95	95
Net income to owners	1,283	1,620	1,308	652	951	1,393
Basic EPS (€)	1.56	1.58	1.12	0.50	0.61	0.90
Adjusted EBITDA commercial	339	509	641	777	695	796
Ratios						
Adj EBITDA commercial margin	81.7%	80.9%	83.7%	77.5%	78.2%	86.4%
Tax rate	7.8%	7.3%	9.1%	9.5%	9.8%	10.0%
Expenses as % of revenues						
Property OpEx	27.9%	29.3%	25.5%	37.5%	38.5%	27.0%
Administration & other OpEx	2.8%	3.0%	3.1%	4.3%	3.5%	3.0%
Y/Y Growth						
Revenues	92.6%	41.7%	19.8%	31.9%	-11.4%	3.7%
Operating income	73.5%	19.4%	-6.0%	-23.4%	-14.3%	35.9%
Adjusted EBITDA	74.3%	50.1%	25.9%	21.3%	-10.6%	14.6%
Net income/ loss	76.1%	26.3%	-19.3%	-50.2%	45.9%	46.5%
Funds from Operations (FFO)						
Adjusted EBITDA commercial portfolio	339	509	641	777	695	796
Finance expense	-70	-115	-142	-201	-160	-162
Tax expense	-34	-44	-71	-89	-80	-92
Minority adjustment	-9	-7	-17	-36	-28	-28
Other adjustments	10	8	3	9	9	9
FFO 1 commercial (long-term recurring)	237	339	415	461	436	523
Adjustment for GCP & other contributions	56	67	89	107	119	128
FFO 1 (before perpetuals)	293	406	503	567	555	651
Perpetual attribution	-29	-46	-58	-90	-95	-95
FFO 1	264	360	446	478	460	557
Extraordinary covid-19 provision	0	0	0	-120	-120	0
FFO 1 (covid-19 adjusted)	264	360	446	358	340	557



BALANCE SHEET

All figures in EURm	2017	2018	2019	2020	2021E	2022E
Assets						
Current assets, total	1,523	2,102	3,743	4,781	3,906	2,919
Cash and cash equivalents	736	1,243	2,192	2,692	2,604	1,593
Short-term investments	99	366	878	454	454	454
Receivables	163	277	454	617	516	535
Other current assets	18	5	5	141	145	149
Assets held for sale	508	211	214	877	188	188
Non-current assets, total	12,247	16,939	21,702	26,241	26,807	28,823
Property, plant & equipment	26	33	20	877	880	882
Investment properties	9,804	14,174	18,127	21,172	21,570	23,405
Equity accounted investees	1,906	2,215	2,506	3,177	3,284	3,431
Other LT assets	512	517	1,049	1,014	1,073	1,104
Total assets	13,770	19,041	25,445	31,022	30,714	31,742
Shareholders' equity & debt						
Current liabilities, total	566	606	857	1,074	876	804
Short-term debt	17	27	246	181	100	100
Accounts payable	267	451	343	435	460	374
Provisions & other current liabilities	282	128	268	458	317	329
Long-term liabilities, total	5,955	8,491	11,209	14,364	13,736	13,741
Long-term debt	5,078	7,444	9,759	11,680	10,929	10,772
Deferred tax liabilities	752	882	1,107	2,026	2,123	2,258
Other LT liabilities	125	164	342	659	684	711
Minority interests	674	567	1,309	2,025	1,838	1,884
Shareholders' equity	6,576	9,377	12,070	13,558	14,263	15,313
Total consolidated equity and debt	13,770	19,041	25,445	31,022	30,714	31,742
Ratios						
ICR (x)	5.4	4.7	4.8	4.3	4.5	5.1
Net debt / adj. EBITDA (x)	13.0	11.8	10.9	11.1	11.3	10.9
Equity ratio	52.6%	52.2%	52.6%	50.2%	52.4%	54.2%
Financial leverage	66.9%	62.6%	57.9%	63.4%	54.9%	56.7%
EPRA NAV	6,483	8,742	10,633	11,512	12,256	13,463
EPRA NAVPS (€)	6.8	7.7	8.7	9.8	10.1	11.1
EPRA NTA	n.a.	n.a.	10,523	11,187	11,682	12,913
EPRA NTAPS (€)	n.a.	n.a.	8.6	9.5	9.9	11.0
Net debt	4,400	5,871	6,985	8,598	7,826	8,676
Return on equity (ROE)	23.4%	19.5%	14.2%	6.7%	7.6%	10.0%
Loan-to-value (LTV)	36%	35%	34%	34%	31%	32%



CASH FLOW STATEMENT

All figures in EURm	2017	2018	2019	2020	2021E	2022E
Net income	1,539	1,828	1,709	906	1,078	1,534
Depreciation & amortisation	2	2	2	4	2	2
Capital gains, property revaluations & other	-1,327	-1,536	-1,218	-769	-649	-900
Profit share from equity accounted investees	-228	-252	-299	-196	-160	-194
Shared based payment in a subsidiary	2	3	5	3	0	0
Net finance expenses	85	208	96	369	160	162
Tax result	297	257	351	377	177	227
Operating cash flow	369	510	646	694	609	831
Changes in working capital	-13	-39	-34	-36	75	-125
Provisions for other liabilities	-2	-3	-3	-3	-150	3
Dividend received	41	51	61	43	53	47
Tax paid	-33	-46	-57	-83	-80	-92
Net operating cash flow	362	473	614	616	507	664
CapEx/ intangibles	-9	-5	-3	-36	-5	-5
Disposal/ investment in investment properties, net	-615	-915	-2,311	1,427	941	-935
Acquisition/disposals of subsidiaries	-1,946	-1,829	0	0	0	0
Proceeds from investments in financial assets	-184	-175	-576	-377	20	21
Cash flow from investing	-2,754	-2,924	-2,890	1,014	957	-918
Debt financing, net	1,165	2,588	2,148	-493	-832	-157
Equity financing, net	866	601	596	0	0	0
Payments for own shares	0	0	0	-1,001	-500	0
Share buy-back in a subsidiary	0	0	0	0	-220	0
Dividends paid	-155	-226	-209	-22	-351	-343
Other financing activities	682	87	854	94	510	-95
Net paid financing expenses	-66	-97	-161	-212	-160	-162
Cash flow from financing	2,492	2,953	3,228	-1,634	-1,553	-757
Net cash flows	100	501	952	-5	-88	-1,011
Assets held for sale - cash	-5	6	-4	-3	0	0
Fx effects	0	-1	1	-1	0	0
Cash & equivalents from TLG	0	0	0	509	0	0
Cash, start of the year	641	736	1,243	2,192	2,692	2,604
Cash, end of the year	736	1,243	2,192	2,692	2,604	1,593
AEBITDA commercial / share (€)	0.41	0.47	0.55	0.60	0.45	0.51
FFO 1 (after perpetuals)	264	360	446	478	460	557
FFO 1 (after perpetuals, covid adjusted)	264	360	446	358	340	557
FFOPS 1 (after perpetuals) (€)	0.32	0.34	0.38	0.37	0.39	0.47
FFOPS 1 (after perpetuals, covid adj.) (€)	0.32	0.34	0.38	0.27	0.29	0.47

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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.

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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...39	↓	↓	↓	↓
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	28 January 2021	€5.67	Buy	€8.60
45	31 March 2021	€6.07	Buy	€8.60
46	15 April 2021	€6.34	Buy	€8.60
47	31 May 2021	€6.89	Buy	€8.60
48	Today	€6.47	Buy	€8.60

INVESTMENT HORIZON

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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

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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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