

Aroundtown SA

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

Q2/22
 Update

RATING
BUY

PRICE TARGET
€ 7.30

Return Potential 144.1%
 Risk Rating Medium

SECOND QUARTER IN LINE; GUIDANCE CONFIRMED

Second quarter reporting was close to FBe and has Aroundtown tracking towards confirmed guidance. Led by 2.3% LFL rental growth, FFO 1 remained strong at €186m (+8% Y/Y), and NTAPS edged higher to €10.4. While Q2 was encouraging, the summer market rally was halted last week by comments that the Federal Reserve may have to remain hawkish after all. This sent many property stocks tumbling to new yearly lows. Despite rising macro-uncertainties, we still think AT is well positioned to weather the storm, thanks to its strong liquidity position (€2.2bn) that covers upcoming debt maturities for three years and its exposure to the resilient residential sector via Grand City. After adjusting the share count for the scrip issue, our target price is now €7.3 (old: €74). We remain Buy-rated on AT.

Cautious tone on the earnings call Six month results were largely shaped by high disposal activity. AT closed some €625m in H1 property sales at a 7% margin over BV and 26x net rent. These KPIs were close to prior year comps, which is good news for investors worried about distressed selling ratcheting up property devaluation risks. The company signed another €0.5bn in deals in Q2 and closed a further €410m in disposals post H1 reporting. However, AT management noted on the earnings call that buyers are now increasingly cautious, given all the macro-economic uncertainty, and also acknowledged the higher risk to valuations associated with a slowdown in rent increases. Prospective office tenants are also showing greater hesitancy in taking on new leases. Consequently, AT is taking a more defensive posture to gird for further market volatility and a looming recession. Cash and liquid assets tallied €2.2bn at the end of June and cover debt maturities for the next three years.

Revaluation gains still solid Property stocks have been under pressure most of the year, partly due to market fears that valuations, and thus NAVs and equity ratios, will suffer in the higher interest rate environment. More specifically, investors are worried that higher discount rates used in . . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021	2022E	2023E
Net rent (€m)	633.00	765.70	1,003.00	1,085.70	1,197.49	1,189.35
Adj. EBITDA (€m)	606.0	772.7	944.1	974.9	1004.3	1007.2
Net income (€m)	1,827.80	1,709.10	906.40	1,078.10	957.82	1,257.20
EPS (diluted) (€)	1.54	1.12	0.50	0.55	0.6	0.8
EPRA NTA ¹ (€m)	n.a.	10,522.78	11,186.90	11,564.01	11,717.64	12,440.61
NTAPS ¹ (€m)	n.a.	8.59	9.51	10.21	10.37	11.01
DPS (€)	0.25	0.14	0.22	0.23	0.24	0.28
FFO 1 ² (€m)	359.64	445.58	357.80	353.20	353.52	417.33
FFOPS 1 ² (€)	0.34	0.38	0.27	0.30	0.32	0.37
Liquid assets (€m)	1,613.90	3,074.70	3,287.09	3,276.61	3,175.92	2,980.93

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.

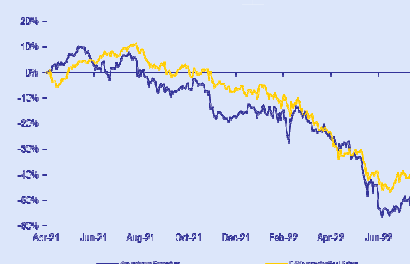
MARKET DATA

As of 25 Aug 2022

Closing Price	€ 2.99
Shares outstanding	1537.02m
Market Capitalisation	€ 4597.23m
52-week Range	€ 2.81 / 6.50
Avg. Volume (12 Months)	3,152,178

Multiples	2021	2022E	2023E
P/FFO 1	9.9	9.3	8.1
P/NTA	0.3	0.3	0.3
FFO 1 Yield	10.1	10.8	12.4
Div. Yield	7.6%	8.1%	9.3%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2022

Liquid Assets	€ 2,200.00m
Current Assets	€ 4,358.00m
EPRA NTA	€ 11,428.00m
Investment properties	€ 29,569.00m
Current Liabilities	€ 1,809.00m
Total Equity	€ 18860.00m

SHAREHOLDERS

Treasury shares*	29.0%
Avisco Group	15.0%
Blackrock	6.2%
Free Float	49.8%

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



... assessors' DCF models will trigger widespread write-downs. So far we have not seen any real signs of weakness with several German residential bellwethers having reported positive H1 numbers. Aroundtown booked H1 revaluation gains of €400m (268% Y/Y) in H1 and €320m for Q2 (+76%). Around 70% of the portfolio was re-valued for H1 reporting.

HIGHLIGHTS FROM THE H1 RESULTS

Net rental income like-for-like (LFL) was +2.3%—in-place rent +2.7%; occupancy minus 0.4%—for the period. Excluding hotels, LFL net rent growth amounted to 2.9%. The H1 metrics include GCP for the first time, which reported 3.0% LFL net rental growth

Table 1: H1/22 results vs prior year and FBe

All figures in EURm	Q2/22	Q2/22E	variance	Q2/21	variance	H1/22	H1/21	variance
Net rental income	304	305	-0.4%	225	35.0%	613	458	33.7%
AEBITDA before JV contribution*	240	240	-0.1%	179	34.0%	486	369	31.8%
Margin (on NRI)	79%	79%	-	80%	-	79%	81%	-
AEBITDA	252	252	0.3%	222	13.6%	511	452	12.9%
FFO 1 before covid adjustment	112	109	2.4%	122	-8.2%	231	247	-6.5%
FFO 1 ¹	96	94	2.4%	85	13.3%	186	172	7.9%
FFOPS 1 before covid adjustment (€)	0.11	0.11	2.4%	0.11	2.9%	0.21	0.21	3.9%
FFOPS 1 ¹ (€)	0.09	0.09	2.4%	0.08	16.9%	0.17	0.15	13.3%

* Previously adj. EBITDA commercial, recurring LT; ¹ Previously FFO 1 after perpetuals, covid adjusted

Source: First Berlin Equity Research; Aroundtown

H1 net rental income (NRI) rose 34% Y/Y to €613m. The growth owes largely to the GCP consolidation. Adjusted for Grand City, NRI was down 9% Y/Y to €418m with the decline traced to some €1.8bn in disposals between the periods. On a quarterly basis, NRI increased 35% Y/Y on similar effects and was close to FBe.

'Adj. EBITDA before JV contribution', which reflects recurring operational profit excluding capital gains and revaluation effects, climbed 32% Y/Y to €486m in H1 owing chiefly to the GCP contribution and supported by the 2.3% LFL NRI growth. Higher rents from rising CPI indexation more than offset inflationary effects. Excluding the Grand City consolidation, the H1 KPI was 9% lower Y/Y, due to aforementioned disposals. Including the JV contributions, AEBITDA tallied €511m (+13%). On a quarterly basis, the AEBITDA before JV contribution increased 34% Y/Y to €179m and was close to FBe.

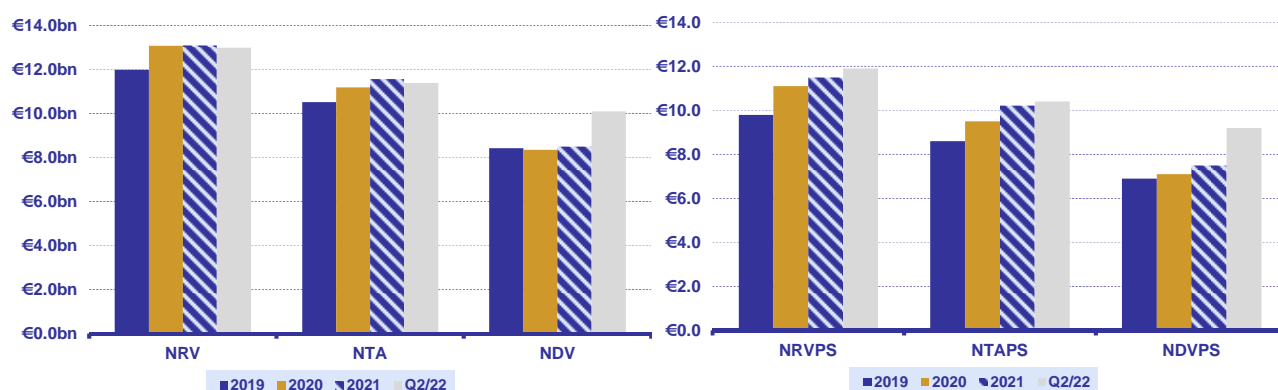
FFO 1 stable on a per share basis 'FFO 1 before the covid adjustment' was down 7% Y/Y to €247m owing to the high disposals offsetting the 2.3% LFL NRI growth and higher stakes in GCP and TLG. However, the corresponding per share KPI was stable at €0.21, thanks to share buyback effects. The GCP consolidation had no material impact on FFO calculations since AT's share of GCP FFO was already included in the old accounting.

FFO 1 was up 13% Y/Y to €186m, helped by the lower Covid-19 provision at €45m (H1/21: €75m) on the back of improving hotel collection rates (80% in July). On a quarterly basis, all FFO KPIs were close to our targets.

FFO 2 tallied €360m (H1/21: €548m), thanks to the €25m of property disposals at 26x NRI with a 39% margin over cost including CapEx. This compares to H1/21 comps of 23x and 51% respectively. Berlin dominated H1/22 disposals, and office led by asset class.



Figure 1: EPRA NAV developments



Source: First Berlin Equity Research; Aroundtown

EPRA NTA totalled €11.4bn (€10.4 / share) compared to €11.6bn at year-end 2021 (€10.2 / share, +2% YTD). Adjusted for dividends, NTA is up 4% YTD. Per share growth was positively impacted by the share buyback.

Table 2: Financial highlights

All figures in EURm	Q2/22	2021	variance
Cash and liquid assets	2,200	3,244	-32%
Investment property	29,569	29,116	2%
Total assets	39,020	39,383	-1%
Net financial debt	12,753	12,344	3%
Total equity	18,860	19,156	-2%
Equity ratio	48%	49%	-
EPRA NTA	11,428	11,564	-1%
Unencumbered asset ratio	84%	83%	-
Loan-to-Value (LTV)	40%	39%	-

Source: First Berlin Equity Research; Aroundtown

Balance sheet metrics improved YTD The debt structure includes an LTV of 40% alongside a 1.2% average cost of debt with a 5.4 year maturity. AT repaid some €0.8bn in shorter maturity debt and repurchased €0.2bn of its own shares in H1. The interest coverage ratio (ICR) and unencumbered asset ratio edged higher to 5.3x (YE21: 4.9x) and 84% (YE21:83%) respectively at the end of June, while the net debt /EBITDA ratio stood at 12.3x.



VALUATION MODEL

Figure 2: Guidance vs FBe

	Unit	2022 Guidance	FBe 2022
FFO 1 ¹	€m	350 - 375	354
FFOPS 1 ¹	€	0.31 - 0.34	0.32
DPS	€	0.23 - 0.25	0.24

¹Previously FFO 1 after perpetuals, covid adjusted

Updated forecasts now factor in the higher share count stemming from the scrip dividend shares, but our 2022 FFOPS 1 target is unchanged. Our recalibrated discounted dividend model (DDM) now points to a target price of €7.3 (old: €7.4). We remain Buy-rated on Aroundtown.

Figure 3: DDM model

in €m	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
FFOPS 1 (€)	0.32	0.37	0.42	0.47	0.49	0.52	0.55	0.58	0.60	0.61
Payout ratio	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Dividend (DPS) (€)	0.24	0.28	0.31	0.35	0.37	0.39	0.41	0.43	0.45	0.46
Y/Y		15%	14%	12%	5%	5%	6%	6%	4%	n.a.
NPV	0.24	0.26	0.28	0.29	0.29	0.29	0.29	0.29	0.29	5.38
CAGR 2023 to 2027	10.0%									
Terminal growth rate	1.0%									
Discount rate	5.6%									
NPV of dividends (€)	1.9									
NPV of TV (€)	5.4									
Fair value per share €	7.3									

		Terminal growth						
		-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%
Discount rate	4.4%	7.5	8.0	8.7	9.6	10.7	12.1	14.1
	4.8%	6.9	7.4	8.0	8.7	9.6	10.7	12.2
	5.2%	6.5	6.9	7.4	8.0	8.7	9.6	10.7
	5.6%	6.0	6.4	6.8	7.3	7.9	8.7	9.6
	6.0%	5.7	6.0	6.3	6.8	7.3	7.9	8.6
	6.4%	5.3	5.6	5.9	6.3	6.7	7.2	7.9
	6.8%	5.0	5.3	5.6	5.9	6.2	6.7	7.2
		Cost of Debt						
		1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.3%
Discount rate	4.4%	11.0	10.6	10.1	9.6	8.7	7.7	6.8
	4.8%	10.0	9.6	9.1	8.7	7.9	7.0	6.2
	5.2%	9.1	8.7	8.3	8.0	7.2	6.4	5.7
	5.6%	8.4	8.0	7.7	7.3	6.6	5.9	5.2
	6.0%	7.7	7.4	7.1	6.8	6.1	5.5	4.9
	6.4%	7.2	6.9	6.6	6.3	5.7	5.1	4.6
	6.8%	6.7	6.4	6.1	5.9	5.3	4.8	4.3



INCOME STATEMENT

All figures in EURm	2018	2019	2020	2021	2022E	2023E
Net rent	633	766	1,003	1,086	1,197	1,189
Operating and other income	114	129	177	238	352	349
Rental and operating income (RI)	747	895	1,180	1,323	1,549	1,539
Capital gains, property revaluations & other	1,536	1,218	769	810	588	661
Result from equity-accounted investees	252	299	196	193	74	77
Property OpEx	-219	-228	-443	-533	-641	-577
Other income	0	0	0	0	0	0
Administration & other OpEx	-23	-27	-51	-57	-63	-61
Operating income (EBIT)	2,294	2,156	1,652	1,737	1,508	1,640
Net financial result	-115	-142	-201	-180	-184	-177
Other financial expenses	-94	46	-168	-162	-131	0
Pre-tax income (EBT)	2,085	2,060	1,283	1,394	1,193	1,462
Tax expense	-44	-71	-89	-100	-105	-106
Deferred tax	-213	-280	-287	-216	-129	-99
Tax result	-257	-351	-377	-316	-235	-205
Comprehensive net income	1,828	1,709	906	1,078	958	1,257
Minority interests	161	343	165	330	221	253
Perpetual notes	46	58	90	106	119	119
Net income to owners	1,620	1,308	652	642	618	885
Basic EPS (€)	1.54	1.12	0.50	0.55	0.56	0.78
AEBITDA	606	773	944	975	1,004	1,007
Ratios						
Adj EBITDA before JV contributions	95.7%	100.9%	94.1%	89.8%	83.9%	84.7%
Tax rate	7.3%	9.1%	9.5%	10.3%	10.5%	10.5%
Expenses as % of revenues						
Property OpEx	29.3%	25.5%	37.5%	40.3%	41.4%	37.5%
Administration & other OpEx	3.0%	3.1%	4.3%	4.3%	4.1%	3.9%
Y/Y Growth						
Revenues	41.7%	19.8%	31.9%	12.1%	17.1%	-0.7%
Operating income	19.4%	-6.0%	-23.4%	5.1%	-13.2%	8.7%
Adjusted EBITDA	78.8%	27.5%	22.2%	3.3%	3.0%	0.3%
Net income/ loss	26.3%	-19.3%	-50.2%	-1.5%	-3.8%	43.3%
Funds from Operations (FFO)						
AEBITDA before JV contribution	497	641	777	871	957	958
Finance expense	-115	-142	-201	-180	-184	-177
Tax expense	-44	-71	-89	-100	-105	-106
Minority adjustment	-7	-17	-36	-82	-125	-127
Other adjustments	8	3	9	7	8	8
Perpetual attribution	-46	-58	-90	-106	-119	-119
FFO 1 before JV contribution	293	357	371	409	432	436
JV FFO 1 contributions	67	89	107	69	22	26
FFO 1 before Covid adjustment	360	446	478	478	454	462
Extraordinary provision for uncollected rents	0	0	-120	-125	-100	-45
FFO 1¹	360	446	358	353	354	417

¹ Previously FFO 1 after perpetuals, covid adjusted



BALANCE SHEET

All figures in EURm	2018	2019	2020	2021	2022E	2023E
Assets						
Current assets, total	2,102	3,743	4,781	5,529	4,777	4,372
Cash and cash equivalents	1,243	2,192	2,692	2,873	2,771	2,576
Short-term investments	366	878	454	376	376	376
Receivables	277	454	617	1,219	1,401	1,391
Other current assets	5	5	141	28	28	29
Assets held for sale	211	214	877	1,033	200	0
Non-current assets, total	16,939	21,702	26,241	33,854	34,136	35,580
Property, plant & equipment	33	20	877	1,849	1,855	1,860
Investment properties	14,174	18,127	21,172	29,116	29,465	30,857
Equity accounted investees	2,215	2,506	3,177	1,223	1,253	1,286
Other LT assets	517	1,049	1,014	1,667	1,562	1,577
Total assets	19,041	25,445	31,022	39,383	38,912	39,952
Shareholders' equity & debt						
Current liabilities, total	606	857	1,074	1,607	1,332	1,295
Short-term debt	27	246	181	544	56	56
Accounts payable	451	343	435	621	816	761
Provisions & other current liabilities	128	268	458	442	460	478
Long-term liabilities, total	8,491	11,209	14,364	18,620	18,145	18,349
Long-term debt	7,444	9,759	11,680	15,026	14,394	14,468
Deferred tax liabilities	882	1,107	2,026	2,766	2,895	2,995
Other LT liabilities	164	342	659	828	856	886
Minority interests	567	1,309	2,025	3,875	4,096	4,350
Shareholders' equity	9,377	12,070	13,558	15,281	15,339	15,959
Total consolidated equity and debt	19,041	25,445	31,022	39,383	38,912	39,952
Ratios						
ICR (x)	4.7	4.8	4.3	4.9	4.9	5.1
Net debt / adj. EBITDA (x)	11.8	10.9	11.1	14.2	11.8	12.0
Equity ratio	52.2%	52.6%	50.2%	48.6%	49.9%	50.8%
Financial leverage	62.6%	57.9%	63.4%	80.8%	73.5%	72.3%
EPRA NTA	n.a.	10,523	11,187	11,564	11,718	12,441
EPRA NTAPS (€)	n.a.	8.6	9.5	10.2	10.4	11.0
Net debt	5,871	6,985	8,598	12,344	11,274	11,544
Return on equity (ROE)	19.5%	14.2%	6.7%	7.1%	6.2%	7.9%
Loan-to-value (LTV)	35%	34%	34%	39%	36%	36%



CASH FLOW STATEMENT

All figures in EURm	2018	2019	2020	2021	2022E	2023E
Net income	1,828	1,709	906	1,078	958	1,257
Depreciation & amortisation	2	2	4	16	15	15
Capital gains, property revaluations & other	-1,536	-1,218	-769	-810	-588	-661
Profit share from equity accounted investees	-252	-299	-196	-193	-74	-77
Shared based payment in a subsidiary	3	5	3	6	0	0
Net finance expenses	208	96	369	343	315	177
Tax result	257	351	377	316	235	205
Operating cash flow	510	646	694	755	861	917
Changes in working capital	-39	-34	-36	-57	-8	-54
Provisions for other liabilities	-3	-3	-3	-4	20	21
Dividend received	51	61	43	24	44	45
Tax paid	-46	-57	-83	-93	-105	-106
Net operating cash flow	473	614	616	626	811	822
CapEx/ intangibles	-5	-3	-36	23	-21	-21
Disposal / investment in investment properties, net	-915	-2,311	1,427	1,179	1,048	-530
Acquisition / disposals of subsidiaries	-1,829	0	0	0	0	0
Proceeds from investments in financial assets	-175	-576	-377	-124	20	21
Cash flow from investing	-2,924	-2,890	1,014	1,078	1,047	-531
Debt financing, net	2,588	2,148	-493	-1,320	-1,120	75
Equity financing, net	601	596	0	0	0	0
Payments for own shares	0	0	-1,001	-444	-400	0
Share buy-back in a subsidiary	0	0	0	-270	0	0
Dividends paid	-226	-209	-22	-252	-173	-266
Other financing activities	87	854	94	-120	-82	-119
Net paid financing expenses	-97	-161	-212	-201	-184	-177
Cash flow from financing	2,953	3,228	-1,634	-2,607	-1,960	-487
Net cash flows	501	952	-5	-903	-102	-196
Assets held for sale - cash	6	-4	-3	-2	0	0
Fx effects	-1	1	-1	16	0	0
Cash & equivalents from TLG	0	0	509	1070	0	0
Cash, start of the year	736	1,243	2,192	2,692	2,873	2,771
Cash, end of the year	1,243	2,192	2,692	2,873	2,771	2,576
FFO 1 before covid adjustment	360	446	478	478	454	462
FFO 1 ¹	360	446	358	353	354	417
FFOPS 1 before covid adjustment (€)	0.34	0.38	0.37	0.41	0.41	0.41
FFOPS 1 ¹ (€)	0.34	0.38	0.27	0.30	0.32	0.37

¹ Previously FFO 1 after perpetuals, covid adjusted

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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...44	↓	↓	↓	↓
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	30 August 2021	€6.47	Buy	€8.60
49	23 September 2021	€6.06	Buy	€8.60
50	25 November 2021	€5.91	Buy	€8.60
51	31 March 2022	€5.27	Buy	€8.30
52	31 May 2022	€4.40	Buy	€7.40
53	Today	€2.99	Buy	€7.30

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

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

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