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## Aroundtown S.A.

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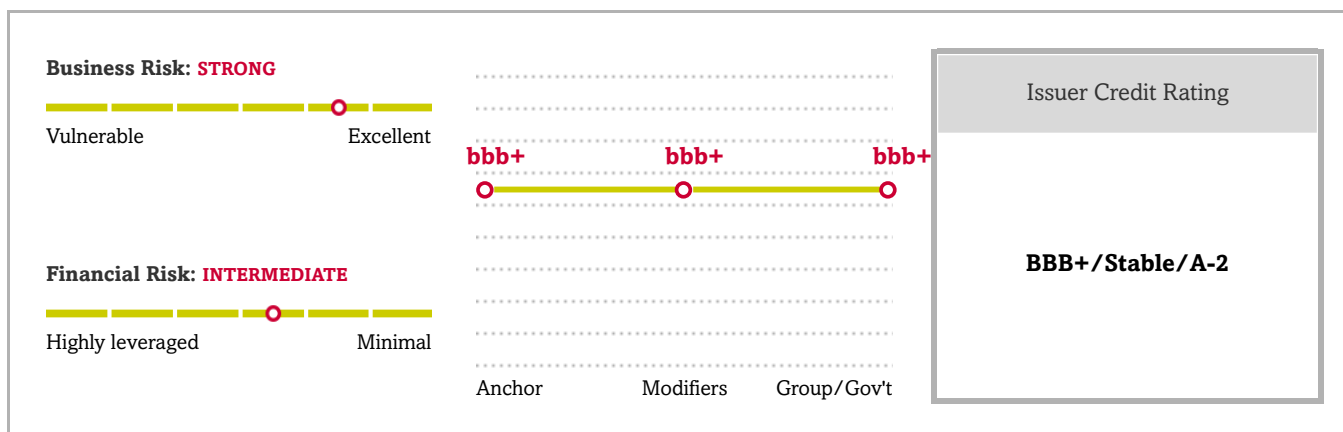
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# Aroundtown S.A.



## Overview

Key Strengths	Key Risks
Large portfolio of about €16 billion spread across several segments, including offices and residential properties.	Geographic concentration in Germany (over 90% of cash flows).
Good tenant diversity, with top 10 tenants accounting for only 18% of annual rents, and long weighted average lease maturity of about 7.5 years for commercial assets.	Relatively high vacancy rate of about 8.7% as of September 2018 for its commercial portfolio compared with rated investment-grade peers.
Focus mainly on German metropolitan areas and mid-sized cities with favorable market fundamentals.	Moderate leverage ratio, with S&P Global Ratings' adjusted debt to debt plus equity to remain at about 47%.
Access to diversified funding sources, with low average cost of debt of 1.8% and very long average debt maturity profile exceeding seven years.	

**Aroundtown continued expanding and diversifying its portfolio in 2018, bringing its portfolio size up by about 50% year on year to €16 billion as of September.** The company's portfolio increased by (net) about €6 billion in the last 12 months, mainly in offices and hotels. The exposure increased in particular in cities like Berlin and Frankfurt. However, on overall commercial real estate (CRE) exposure, the office share declined to 57% as of Sept. 30, 2018, from 60% in September last year, while the company's hotel exposure increased by six percentage points to 25% over same period.

**The company has been very active on capital markets, issuing €4.2 billion year to date.** These issuances included equity issuances, perpetual notes, and senior unsecured debt. Aroundtown extended its debt maturity profile to 7.6 years as of Sept. 30, 2018, and maintained a stable cost of funding at 1.8%. We view the company's liquidity as strong with no large debt maturities before 2022 and sufficient cash in place to cover any short-term needs.

**Outlook: Stable**

The stable outlook reflects our view that Aroundtown's portfolio, including ongoing property acquisitions, should generate increasing recurring cash flows. Under our base-case scenario, we forecast positive annual like-for-like rental income growth of about 4.5% for 2018, based on the solid like-for-like improvement in occupancy rates to just above 2%, as well as an increase in rents of existing lease contracts.

We forecast its debt-to-debt plus equity ratio will remain at approximately 47% and EBITDA interest coverage above 3x.

**Downside scenario**

We could lower the rating if Aroundtown's debt-to-debt plus equity ratio increased to 50% or higher on a prolonged basis, or if the company substantially increased its acquisitions of turnaround properties, which would reduce the stability of cash flows. We believe this could occur if the company undertook large leveraged acquisitions, experienced markedly higher renovation capital expenditures (capex), or if property yields rose due to falling investor demand. We would also view negatively an increase in vacancy rates in its commercial property portfolio to 10% or higher, including newly acquired assets.

**Upside scenario**

We would most likely raise the rating if Aroundtown were to reduce its S&P Global Ratings-adjusted debt-to-debt plus equity ratio close to 40% or below, and maintained that level as part of a more conservative financial policy.

In addition, an upgrade would require Aroundtown to maintain a large diversified portfolio in terms of segment and tenant mix with exposure to dynamic location with continuous demand for commercial and residential real estate. We would also view positive, a reduction in vacancy rates to 5% or below, including any newly acquired assets.

**Our Base-Case Scenario**

Assumptions	Key Metrics			
<ul style="list-style-type: none"> <li>• A stable economic environment, with German real GDP growth of approximately 1.7%-1.8% for the next 12-24 months, low unemployment rates of below 5%, and an inflation rate of close to 2%.</li> <li>• Gross rental income of about €900 million-€950 million for 2018, including proportional consolidation of Grand City Properties. This is based on recent strong portfolio growth and positive like-for-like rental income growth of about 4.5% for full-year 2018, resulting from solid like-for-like improvement in occupancy rates of just above 2% and rent increases.</li> <li>• Strong like-for-like asset valuation of about 10%-13% for full-year 2018, taking into account about €1.2 billion already achieved in the first nine months of 2018. For the following years, we assume conservatively asset revaluation gains of about 3%-5%, underpinned by the continuing good fundamentals of the German market and favorable demand trends.</li> <li>• A moderate increase in total interest expenses to about €150 million for 2018, following incremental debt issuances during the past 12-18 months, including 50% of outstanding perpetual dividend payments.</li> <li>• Average cost of debt remaining stable at around 1.8%.</li> </ul>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	
	EBITDA interest coverage (x)	4.5	~4	~4
	Debt to debt plus equity (%)	46.7	~47	~47
	Debt to EBITDA (x)	13.1	~13	12-13
<p>A--Actual. E—Estimate. Figures are S&amp;P Global Ratings' adjusted.</p>				

## Company Description

Aroundtown SA is the largest listed German-based CRE holding company, focusing on investing in rental income generating properties in Germany and the Netherlands. As of Sept. 30, 2018, the total portfolio size amounted €16 billion, comprising office assets (50% of portfolio value), hotels (23%), residential (17%), logistics/other (9%) and retail (1%). The residential investments are carried out through its 39% holding in Grand City Properties S.A. (BBB+/Stable/A-2).

Aroundtown is incorporated in Luxembourg and listed at the Prime Standard on the Frankfurt Stock Exchange. Largest shareholder is its founder Yakir Gabay through Avisco Group Plc with a 34% share as of Sept. 30, 2018, and 66% free float.

## Business Risk: Strong

The business risk assessment on Aroundtown is supported by its large scale and scope of its portfolio, diversified across multiple property types, including commercial (83% of portfolio value) and residential assets (17%). We take into account Aroundtown's partial consolidation of its 39% holding of Grand City Properties. In recent years, the group's portfolio value has increased substantially through acquisitions and improvements to properties. As of September 2018, the group's total portfolio comprises about 83,000 residential units, more than 500 commercial assets, and 100 hotels (totaling together 5.9 million square meters of commercial space). It is valued at about €16 billion, based on a proportionate share of the minority-owned residential business.

Aroundtown's portfolio is well diversified across asset types and regions across Germany, mainly in or close to metropolitan areas. We consider the areas of Aroundtown's greatest exposure--namely Berlin (21% of its portfolio value), North Rhine-Westphalia (12%), Frankfurt (12%) and Munich (7%)--to have healthy economic fundamentals, including low unemployment and solid supply and demand characteristics. The company has some exposure to the Netherlands (8% of portfolio) located in the Randstad area, consisting primarily of the four-largest Dutch cities (Amsterdam, Rotterdam, Utrecht, and The Hague).

Our business risk assessment is further supported by the portfolio's long lease structure, with a current weighted-average lease term exceeding seven years in the commercial and hotel segments. Although residential leases are shorter, the average residential tenancy is very long at more than 10 years. The commercial and hotel tenant base is relatively strong and diverse, with more than 3,000 tenants. The largest tenant is Metro AG (BBB-/Stable/A-3), accounting for 6% of total annual rental income. There is no further tenant dependency, with the 10-largest commercial and hotel tenants representing only about 18% of total rental income.

We take into account Aroundtown's continuously strong like-for-like rental income growth of well above 3%, supported by increasing occupancy rates of existing premises and some rental increases of in-place contracts and new leases. However, overall vacancy rates of Aroundtown's commercial portfolio remains relatively high at 8.7% as of September 2018 compared with peers at a similar rating level, mainly resulting from new acquisitions.

## Peer comparison

Table 1

Aroundtown S.A. -- Peer Comparison						
Industry Sector: Real Estate Investment Trust or Company						
	Aroundtown S.A.	Klepierre S.A.	Gecina	Icade S.A.	Societe Fonciere Lyonnaise S.A.	Covivio
Rating as of Nov. 30, 2018	BBB+/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Positive/A-2
<b>(Mil. €)</b>	<b>--Year ended Dec. 31, 2017--</b>					
Revenues	713.5	1,332.1	562.5	1,654.2	195.8	588.9
EBITDA	462.0	1,024.5	430.1	534.7	167.0	493.2
Funds from operations (FFO)	304.3	825.0	327.7	440.8	120.4	323.8
Interest Expense	103.8	186.4	100.0	93.7	40.1	162.0

**Table 1**

<b>Aroundtown S.A. -- Peer Comparison (cont.)</b>						
Net income from cont. oper.	1,282.6	1,228.6	1,895.6	170.0	685.3	914.1
Cash flow from operations	346.9	812.4	230.6	329.9	121.8	390.6
Capital expenditures	110.2	287.1	378.2	677.9	206.3	627.9
Free operating cash flow	236.6	525.3	(147.6)	(348.0)	(84.5)	(237.3)
Dividends paid	154.6	609.6	322.2	343.5	54.0	324.7
Discretionary cash flow	82.1	(84.3)	(469.8)	(691.5)	(138.5)	(562.0)
Cash and short-term investments	841.6	564.5	122.0	420.3	15.7	1,089.0
Debt	6,048.8	9,086.7	8,641.3	5,617.9	1,689.9	5,849.3
Equity	6,914.0	12,960.5	11,014.4	7,448.9	4,239.0	6,363.0
Debt and equity	12,962.8	22,047.2	19,655.7	13,066.8	5,928.9	12,212.3
Valuation of Investment Property	12,275.5	21,617.1	16,667.1	12,786.9	6,119.1	12,784.0
<b>Adjusted ratios</b>						
Annual revenue growth (%)	67.4	1.0	12.1	10.8	(1.2)	2.5
Return on capital (%)	4.2	4.6	2.7	1.7	2.8	4.3
EBITDA interest coverage (x)	4.5	5.5	4.3	5.7	4.2	3.0
FFO/debt (%)	5.0	9.1	3.8	7.8	7.1	5.5
FFO cash int. cov. (X)	4.7	4.6	4.4	6.3	3.8	3.2
Debt/EBITDA (x)	13.1	8.9	20.1	10.5	10.1	11.9
Total debt/debt plus equity (%)	46.7	41.2	44.0	43.0	28.5	47.9

## Financial Risk: Intermediate

Aroundtown's financial risk profile reflects our expectation that the company will maintain a debt-to-debt plus equity ratio well below 50% and a favorable EBITDA interest coverage ratio of above 3x in the long term. We proportionately consolidate the financials of 39%-owned Grand City Properties, since we think this better reflects the two companies' business and financial ties, and we believe Aroundtown's long-term strategy is to remain a major shareholder in Grand City Properties.

Despite this, we currently do not align our ratings on Aroundtown with those on Grand City Properties. We acknowledge that Grand City Properties has established a track record of operating as an independent listed company. We may reassess the relationship between the two companies if Aroundtown gained majority control of Grand City Properties.

Aroundtown has a very long average debt maturity profile of above seven years and low cost of debt of only 1.8%. We believe that rising interest rates should have a limited impact on the company's credit metrics in the medium term, thanks to the company's highly fixed or hedged debt structure (97%).

## Financial summary

**Table 2**

<b>Aroundtown S.A.--Quarterly Data</b>					
<b>Industry Sector: Real Estate Investment Trust or Company</b>					
<b>(Mil. €)</b>	<b>September 2018</b>	<b>June 2018</b>	<b>March 2018</b>	<b>December 2017</b>	<b>September 2017</b>
Revenues	245.0	232.9	216.7	154.9	228.8
EBITDA	160.1	149.4	140.0	52.4	153.2
Funds from operations (FFO)	103.1	94.1	90.3	30.2	92.2
Net income from continuing operations	361.9	554.1	322.5	59.3	562.6
Cash flow from operations	140.3	99.6	70.0	89.8	126.2
Capital expenditures	37.1	11.8	31.7	43.1	23.2
Free operating cash flow	103.2	87.8	38.3	46.6	102.9
Cash and short-term investments	1,389.4	1,242.8	1,395.3	841.6	501.8
Debt	8,207.1	7,559.4	6,701.1	6,048.8	5,483.9
Equity	8,747.2	8,077.6	7,934.8	6,907.6	6,098.0
Valuation of Investment Property	16,954.4	14,965.8	13,487.3	12,275.5	10,634.2
<b>Adjusted ratios</b>					
Gross EBITDA margin (%)	59.1	59.4	59.4	59.0	65.6
Return on capital (%)	3.3	3.6	3.7	3.8	4.6
EBITDA interest coverage (x)	3.9	3.7	3.9	4.0	4.0
Debt/EBITDA (x)	16.3	15.3	14.7	14.5	12.1
FFO/debt (%)	3.9	4.1	4.2	4.3	5.0
Debt/debt and equity (%)	48.4	48.3	45.8	46.7	47.3

## Liquidity: Strong

We assess Aroundtown's liquidity as strong, since we forecast that the fund's liquidity sources will exceed its funding needs by at least 1.5x over the next 12-24 months. The company benefits from the absence of large debt maturities in the next couple of years, and a high portion of liquid available assets.

### Principal Liquidity Sources(as of Sept. 30, 2018)

- About €1 billion of cash and €361 million of liquid market investments;
- Our forecast of €420 million-€430 million in cash FFO for the next 12 months; and
- €200 million of committed asset sales.

### Principal Liquidity Uses(as of Sept. 30, 2018)

- About €26 million of short term debt, including debt amortization;
- Our forecast of about €100 million of capex for property investment;

- Dividends of about €260 million to €280 million, which we assume conservatively as cash dividends; and
- About €400 million of committed acquisitions.

We expect Aroundtown will maintain sufficient headroom (more than 15%) under the financial maintenance covenants in its various debt agreements.

## Ratings Score Snapshot

### Issuer Credit Rating

BBB+/Stable/A-2

### Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Strong

### Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: bbb+

### Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

## Issue Ratings--Subordination Risk Analysis

### Capital structure

As of Sept. 30, 2018, 73% of Aroundtown's assets were unencumbered, and the reported capital structure was composed of:

- equity, including perpetual notes (56%);
- bonds (37%); and
- bank debt (7%).



## Analytical conclusions

As of Sept. 30, 2018, Aroundtown's ratio of secured debt to total assets was 6%, well below our 40% threshold for notching the issue rating. This is why we equalize the ratings on the senior unsecured debt with our 'BBB+' issuer rating.

Regarding its outstanding subordinated hybrids, we assign an intermediate equity content (50% equity; 50% debt) and notch the issue rating down by two notches to 'BBB-', one notch for subordination and one for deferability.

## Reconciliation

**Table 3**

**Reconciliation Of Aroundtown S.A. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)**

--Rolling 12 months ended Sept. 30, 2018--

**Aroundtown S.A. reported amounts.**

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations	Capital expenditures
Reported	7,366.4	8,824.9	646.6	1,864.2	1,858.0	88.8	1,864.2	442.6	95.2
S&P Global Ratings' adjustments									
Interest expense (reported)	--	--	--	--	--	--	(88.8)	--	--
Interest income (reported)	--	--	--	--	--	--	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	(35.0)	--	--
Intermediate hybrids reported as equity	805.0	(805.0)	--	--	--	18.9	(18.9)	(21.4)	--
Surplus cash	(1,250.5)	--	--	--	--	--	--	--	--
Share-based compensation expense	--	--	--	2.3	--	--	2.3	--	--
Deconsolidation/consolidation	1,211.5	349.6	202.9	102.0	101.1	22.4	69.7	55.6	28.5
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	(77.2)	--
Non-controlling interest/minority interest	--	377.7	--	--	--	--	--	--	--
Debt - Accrued interest not included in reported debt	69.4	--	--	--	--	--	--	--	--
Debt - Unamortised capitalized borrowing costs	5.3	--	--	--	--	--	--	--	--
EBITDA - Income (expense) of unconsolidated companies	--	--	--	(189.8)	(189.8)	--	(189.8)	--	--
EBITDA - Gain/(Loss) on disposals of PP&E	--	--	--	(11.4)	(11.4)	--	(11.4)	--	--
EBITDA - Other	--	--	--	(1,265.2)	(1,265.2)	--	(1,265.2)	--	--
FFO - Other	--	--	--	--	--	--	(9.3)	--	--
Dividends - Other	--	--	--	--	--	--	--	--	--
Total adjustments	840.7	(77.7)	202.9	(1,362.2)	(1,365.3)	41.3	(1,546.4)	(43.0)	28.5

Table 3

**Reconciliation Of Aroundtown S.A. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)**

S&P Global Ratings' adjusted amounts										
	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Funds from Operations	Cash flow from operations	Capital expenditures	
Adjusted	8,207.1	8,747.2	849.5	502.0	492.6	130.1	317.7	399.6	123.7	

## Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry - February 26, 2018
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology - November 19, 2013
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition - September 15, 2008
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings - October 24, 2013
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

## Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
<b>Strong</b>	aa/aa-	a+/a	<b>a-/bbb+</b>	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

### Ratings Detail (As Of December 3, 2018)

#### Aroundtown S.A.

Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+

#### Issuer Credit Ratings History

07-Dec-2017	BBB+/Stable/A-2
21-Dec-2016	BBB/Stable/A-2
16-Jun-2016	BBB/Stable/--
08-Dec-2015	BBB-/Stable/--

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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