

## TLG merger an (additional) source for growth

- Progressing well:** On our recent roadshow with Aroundtown to Amsterdam, Belgium and Paris, the company made it very clear that its growth momentum remains strong, as reflected in the €2.5bn of signed acquisitions since the beginning of the year. This is the highest-ever volume in the company's history in an increasingly competitive environment. Importantly, Aroundtown has not changed its return expectations for investments, targeting a 6-8% unlevered net operating income yield following the repositioning of property.
- Share price decline unjustified...:** However, Aroundtown's share price has retreated by 6.2% over the last week following the announcement on 1 September of a potential merger with TLG. While some relevant details about the structure of the deal, including potential synergies, are still to be released, we regard the negative share price reaction as exaggerated. Presumably, the downturn in the share price is primarily due to the fact that the founder of Aroundtown (who owns 27% via Avisco) sold 9.99% to TLG at a price of €8.30 on 1 September. Clearly, at €8.30, the founder sold some of his shares in Aroundtown at a premium of 9.7% above the closing price prior to the announcement. However, the selling price was set at Aroundtown's last reported adjusted net asset value (EPRA NAV) per share of €8.30 by June excluding minorities and excluding hybrid notes. This is in our view a good data point to initiate merger talks with TLG. We think that Aroundtown's NAV is set to rise further given the company's recent acquisitions as well as the upside potential from its existing portfolio. We regard our assumption of €8.47 as NAV/share for December 2019 as conservative; thus we believe that the founder selling a position in Aroundtown at the last reported NAV/share should not be taken too negatively. Also, assuming the merger with TLG will progress as planned, the full benefit of the combined company will be available to all shareholders equally. Also, Avisco will remain a key investor in the combined company with a sizeable stake; however, by owning a smaller stake in the combined company, the free float and index weighting will be enlarged straight away following the completion of the merger. Further, we view it positively that the merger talks between Aroundtown and TLG are based on the latest reported NAVs, which were €8.30 for Aroundtown and €29.77 for TLG.
- ...as strategy remains unchanged:** With further details about the merger hopefully to be provided sooner rather than later, it was for us encouraging to hear from Aroundtown during our roadshow that it does not consider portfolio growth to be a virtue per se. (Continued on page 3.)

Y/E 31/12, EURm	2017	2018	2019E	2020E	2021E
Net rents	527	747	864	970	1,041
EBIT (inc revaluation)	1,920	2,294	1,722	1,567	1,578
EBIT (excl revaluation)	594	757	873	934	979
Net profit (IFRS, reported)	1,311	1,667	1,187	1,050	1,056
Funds From Operations (FFO I)	283	406	498	546	584
EPS (IFRS, reported)	1.56	1.54	0.97	0.82	0.83
FFO per share	0.34	0.39	0.42	0.45	0.48
DPS	0.23	0.25	0.28	0.33	0.36
Adjusted NAV per share	6.50	7.80	8.47	9.07	9.62
EV/adjusted EBITDA	5.4	6.1	8.5	9.6	9.8
FFO yield	5.4%	5.3%	6.0%	6.3%	6.7%
P/FFO	18.6	18.7	16.7	15.9	14.9
Dividend yield	3.6%	3.5%	3.9%	4.6%	5.1%
P/adjusted NAV per share	-1%	-7%	-16%	-22%	-26%
Net gearing	77%	75%	74%	73%	72%
Loan-to-value (LTV)	34%	35%	36%	36%	35%
Implied rental yield	5.1%	5.3%	5.9%	6.4%	6.8%

Source: Company data, Berenberg

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9 September 2019

**BUY**

**Current price**      **Price target**  
EUR7.10              EUR9.20

06/09/2019 XETRA Close

Market cap (EURm)              8,687  
Reuters                              AT1.DE  
Bloomberg                           AT1 GY

### Changes made in this note

Rating: Buy (no change)  
Price target: EUR9.20 (no change)

### Estimates changes

	2019E		2020E		2021E	
	old	Δ %	old	Δ %	old	Δ %
Rents	864	-	970	-	1,041	-
EBIT	873	-	934	-	979	-
FFO	0.42	-	0.45	-	0.48	-

Source: Berenberg estimates

### Share data

Shares outstanding (m)              1,224  
Enterprise value (EURm)              14,670  
Daily trading volume              3,520,000



Source: Thomson Reuters Datastream

# Aroundtown SA (AT1 GY)

## Real Estate – Commercial



**BUY**

9 September 2019

**Current price**      **Price target**  
**EUR7.10**            **EUR9.20**  
 06/09/2019 XETRA Close

Reuters                    AT1.DE  
 Bloomberg                AT1 GY  
 Market cap (EURm)      8,687  
 EV (EURm)                14,670  
 Trading volume          3,520,000  
 Free float                 73.1%

### Non-institutional shareholders

Avisco Group (founder and management): 17%; TLG Immobilien: 10%

### Share performance

High 52 weeks            EUR7.87  
 Low 52 weeks            EUR7.07

### Business description

Aroundtown focuses on commercial real estate and manages a portfolio worth c€16bn, with a regional focus on Germany and some exposure also to the Netherlands and London.

### Performance relative to

	SXXP	MDAX
1mth	-4.9%	-3.2%
3mth	-7.9%	-8.5%
12mth	-10.0%	-3.5%

## Investment thesis

- Aroundtown has focused on growing its commercial portfolio, predominantly in regions with solid economic fundamentals.
- Rental and occupancy levels in the German office property markets have started to improve.
- The company's balance sheet ratios have always been solid and are improving, as reflected in an S&P credit rating of "BBB+".
- Our valuation is based on return on net asset value and a dividend discount model.

### Profit and loss summary

EURm	2017	2018	2019E	2020E	2021E
Net rental income	380	528	643	707	756
Total revenues	608	780	899	964	1,013
Revaluation result	1,327	1,536	848	633	599
Total operating expense	-15	-23	-26	-30	-34
EBITDA (IFRS)	1,920	2,294	1,722	1,567	1,578
Adjusted EBITDA	594	757	873	934	979
Financial result	-85	-208	-99	-138	-143
EBT (IFRS)	1,836	2,085	1,622	1,429	1,435
Net profit (IFRS)	1,311	1,667	1,187	1,050	1,056
Funds from operations	283	406	498	546	584
FFO/share	0.34	0.39	0.42	0.45	0.48
Year-end shares	948	1,121	1,224	1,224	1,224
DPS	0.23	0.25	0.28	0.33	0.36

### Cash flow summary

EURm	2017	2018	2019E	2020E	2021E
FFO	283	406	498	546	584
CF operating activities	283	406	498	546	584
Payments (acquisitions)	-2,139	-1,834	-1,096	-484	-387
Income (asset disposals)	0	0	0	0	0
Change in debt position	1,860	2,940	2,125	808	735
Dividend paid	-155	-226	-280	-343	-404
Capital measures	866	601	606	0	0

### Growth and margins

	2017	2018	2019E	2020E	2021E
Rental growth	92.0%	38.9%	21.8%	9.9%	7.1%
Adj. EBITDA growth	53.3%	27.5%	15.4%	6.9%	4.9%
FFO growth	71.2%	43.5%	22.7%	9.8%	6.9%
Adj. EBITDA margin	112.6%	101.3%	101.1%	96.3%	94.0%
FFO margin	53.7%	54.3%	57.6%	56.3%	56.1%

### Key ratios

	2017	2018	2019E	2020E	2021E
Net debt	4,254	5,872	5,982	6,388	6,730
Net debt/equity	0.8	0.8	0.7	0.7	0.7
LTV	34%	35%	36%	36%	35%
Net gearing	77%	75%	74%	73%	72%
Interest cover	6.6	5.3	5.4	6.0	6.1
Dividend cover	1.3	1.4	1.5	1.4	1.3
Payout ratio	77%	69%	69%	74%	75%

### Valuation metrics

	2017	2018	2019E	2020E	2021E
P / FFO	18.6	18.7	16.7	15.9	14.9
P / adjusted NAV	-1%	-7%	-16%	-22%	-26%
FFO yield	5.4%	5.3%	6.0%	6.3%	6.7%
Dividend yield	3.6%	3.5%	3.9%	4.6%	5.1%
EV / adj. EBITDA	5.4	6.1	8.5	9.6	9.8

### Key risks to our investment thesis

- Aroundtown has increased its non-German exposure recently and has been buying commercial properties in the Netherlands, as well as hotels in large European cities.
- Competition in the German real estate investment market has intensified.
- Increasing interest rates typically lead to an underperformance of property stocks.

- That it was able to quickly minimise the dilution of the adjusted EPS (funds from operations) following the recent capital increase again reflects Aroundtown's strong sourcing capabilities as well as the good progress it is making operationally, as reflected in lfl rental growth of 4.4% in the first half of the year. Further, it remains a key priority for Aroundtown to further improve its credit rating from Standard & Poor's to "A-" from "BBB+" now, which would not be jeopardised by a merger with TLG. Such a rating upgrade could even be supported by the enlarged portfolio size of a combined company, as TLG's office properties (43% of its portfolio) benefited from low vacancy rates of 4.2% and long average lease maturities of 5.9 years in June. However, we suspect that the combined entity would aim to maintain its exposure to new project developments (as opposed to rented properties) at a healthy level, as rating agencies tend to be somewhat more sceptical about very large development pipelines. Accordingly, we welcome that Aroundtown has affirmed that it would maintain a sizeable exposure to German residential properties via its current stake of 39% in Grand City Properties.
- **Some thoughts on synergies:** Typically, we think there is high synergy potential in residential real estate, where scale effects should translate into greater profitability. Commercial property companies are normally already quite profitable: within the first half of the year, Aroundtown's adjusted EBITDA margin in its commercial portfolio was, at 83.2% over net rental income, already pleasingly high (TLG's net operating income margin: 90.9%). Still, we think there would be some room for improvement for the combined Aroundtown/TLG. Historically, the only merger in German commercial real estate to be larger than this one took place in 2015, when alstria office REIT submitted a (friendly) takeover offer to Deutsche Office (DO), which had a similar-sized office portfolio in Germany. The offer price implied a premium of 16% over DO's and alstria's adjusted closing prices. Alstria predicted (and has also generated since then) total annual synergies of €17.5m for the combined portfolio of €3.4bn, generating €204m in annualised rents (8.5%) and €99m in funds from operation (FFO). The predicted synergies, which have materialised over a number of years, were split into €2.5m pa of cost synergies, €7.5m pa of savings from an improved credit profile and additional €7.5m pa savings on interest expenses from dismantling DO's financial derivatives. Arguably, today Aroundtown's and TLG's financing costs are already low at c1.7% for each company. However, given the current interest rate environment and with an improved credit profile, we would assume that the financial synergies for the combined Aroundtown/TLG should be fairly substantial.
- **Right priorities maintained:** We think that a merger between Aroundtown and TLG offers potential, not least because TLG itself has already successfully reduced its exposure to retail properties, which it inherited from its takeover of WCM in 2017. With its now higher proportion of long-term leased properties with low vacancy rates in prominent locations, TLG would make a valuable contribution to a combined entity, where the reversionary potential of Aroundtown's current portfolio should keep the momentum high. We therefore would suggest that €8.30 as the (backwards-looking) latest reported NAV/share would not be the right reference point for Aroundtown. With more clarity on the way, and with Aroundtown progressing well, we maintain our rating and price target unchanged.

## Financials

### Profit and loss account

Year-end December(EUR m)	2017	2018	2019E	2020E	2021E
<b>Net rents</b>	<b>527</b>	<b>747</b>	<b>864</b>	<b>970</b>	<b>1,041</b>
Direct property expenses	-147	-219	-221	-263	-285
Net operating income	380	528	643	707	756
Earnings from property disposals	0	0	0	0	0
Earnings from project developments	0	0	0	0	0
Earnings from other property activities	0	0	0	0	0
Other operating income	228	252	256	257	256
<b>Total revenues</b>	<b>608</b>	<b>780</b>	<b>899</b>	<b>964</b>	<b>1,013</b>
Revaluation result from investment properties (net)	1,327	1,536	848	633	599
<b>Total income</b>	<b>1,935</b>	<b>2,316</b>	<b>1,748</b>	<b>1,597</b>	<b>1,611</b>
Administrative expenses	-8	-12	-12	-12	-13
Personnel expenses	-6	-11	-14	-17	-21
Other operating expenses	0	0	0	0	0
<b>Total operating expenses</b>	<b>-15</b>	<b>-23</b>	<b>-26</b>	<b>-30</b>	<b>-34</b>
<b>EBITDA</b>	<b>1,920</b>	<b>2,294</b>	<b>1,722</b>	<b>1,567</b>	<b>1,578</b>
<b>EBITDA excl revaluation result (net)</b>	<b>594</b>	<b>757</b>	<b>873</b>	<b>934</b>	<b>979</b>
Depreciation	0	0	0	0	0
Amortisation of goodwill	0	0	0	0	0
Amortisation of intangible assets	0	0	0	0	0
Impairment charges	0	0	0	0	0
<b>EBIT (incl revaluation result net)</b>	<b>1,920</b>	<b>2,294</b>	<b>1,722</b>	<b>1,567</b>	<b>1,578</b>
<b>EBIT excl revaluation result</b>	<b>594</b>	<b>757</b>	<b>873</b>	<b>934</b>	<b>979</b>
Interest income	-11	-94	37	-6	-6
Interest expenses	-70	-115	-137	-133	-137
Depreciation of financial investment	-5	0	0	0	0
Investment income	0	0	0	0	0
<b>Financial result</b>	<b>-85</b>	<b>-208</b>	<b>-99</b>	<b>-138</b>	<b>-143</b>
<b>Earnings before taxes (incl revaluation result)</b>	<b>1,836</b>	<b>2,085</b>	<b>1,622</b>	<b>1,429</b>	<b>1,435</b>
Total taxes	-34	-44	-56	-59	-63
<b>Net income from continuing operations (incl revaluation result)</b>	<b>1,539</b>	<b>1,828</b>	<b>1,448</b>	<b>1,281</b>	<b>1,288</b>
Income from discontinued operations (net of tax)	0	0	0	0	0
Extraordinary items (net of tax)	0	0	0	0	0
Cumulative effect of accounting changes (net of tax)	0	0	0	0	0
<b>Net income (incl revaluation result net)</b>	<b>1,539</b>	<b>1,828</b>	<b>1,448</b>	<b>1,281</b>	<b>1,288</b>
Minority interest	228	161	261	231	232
<b>Net income (net of minority interest, incl revaluation result)</b>	<b>1,311</b>	<b>1,667</b>	<b>1,187</b>	<b>1,050</b>	<b>1,056</b>
<b>Funds from operations (FFO)</b>	<b>283</b>	<b>406</b>	<b>498</b>	<b>546</b>	<b>584</b>

Source: Company data, Berenberg estimates

# Aroundtown SA (AT1 GY)

## Real Estate – Commercial

### Balance sheet

Year-end December (EUR m)	2017	2018	2019E	2020E	2021E
Intangible assets	0	0	0	0	0
Investment properties	9,874	14,223	16,395	17,500	18,479
Development assets	-	-	-	-	-
Property, plant and equipment	26	33	34	34	35
Financial assets	1,906	2,215	2,471	2,728	2,985
Other non-current assets	427	392	645	645	645
Deferred tax assets	15	77	90	96	102
<b>FIXED ASSETS</b>	<b>12,247</b>	<b>16,939</b>	<b>19,635</b>	<b>21,004</b>	<b>22,246</b>
Properties held for sale	508	211	162	162	162
Inventories	0	0	0	0	0
Accounts receivable	174	291	402	422	443
Accounts receivable and other assets	174	291	402	422	443
Liquid assets	842	1,600	3,149	3,128	3,093
<b>CURRENT ASSETS</b>	<b>1,523</b>	<b>2,102</b>	<b>3,713</b>	<b>3,713</b>	<b>3,698</b>
<b>TOTAL ASSETS</b>	<b>13,770</b>	<b>19,041</b>	<b>23,349</b>	<b>24,717</b>	<b>25,944</b>
Subscribed capital	10	11	12	12	12
Surplus capital	5,393	7,818	9,260	9,923	10,531
Additional paid-in capital	0	0	0	0	0
<b>SHAREHOLDERS' EQUITY</b>	<b>5,402</b>	<b>7,830</b>	<b>9,272</b>	<b>9,935</b>	<b>10,543</b>
<b>MINORITY INTEREST</b>	<b>1,848</b>	<b>2,115</b>	<b>3,134</b>	<b>3,364</b>	<b>3,596</b>
<b>PROVISIONS AND ACCRUED LIABILITIES</b>	<b>157</b>	<b>209</b>	<b>216</b>	<b>224</b>	<b>232</b>
short-term liabilities to banks	17	27	28	30	31
Bonds (long-term)	4,121	6,352	8,015	8,015	8,015
long-term liabilities to banks	957	1,093	1,089	1,472	1,777
other interest-bearing liabilities	0	0	0	0	0
<b>Interest-bearing liabilities</b>	<b>5,095</b>	<b>7,472</b>	<b>9,131</b>	<b>9,517</b>	<b>9,823</b>
Accounts payable	267	451	460	469	478
<b>Current liabilities</b>	<b>516</b>	<b>534</b>	<b>531</b>	<b>541</b>	<b>550</b>
Deferred income	0	0	0	0	0
Deferred taxes	752	882	1,064	1,137	1,201
<b>LIABILITIES</b>	<b>6,363</b>	<b>8,887</b>	<b>10,727</b>	<b>11,194</b>	<b>11,574</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>13,770</b>	<b>19,041</b>	<b>23,349</b>	<b>24,717</b>	<b>25,944</b>

Source: Company data, Berenberg estimates

# Aroundtown SA (AT1 GY)

## Real Estate – Commercial



### Cash flow statement

EUR m	2017	2018	2019E	2020E	2021E
Cash flow from operating activities	283	406	498	546	584
Cash flow from investing activities	-2,754	-2,924	-1,424	-833	-756
Cash flow from financing activities	2,492	2,953	2,450	465	331
Cash flow from operating activities	283	406	498	546	584
Increase/decrease in liquid assets	5,912	6,806	4,679	2,331	2,285

Source: Company data, Berenberg estimates

### Ratios

Ratios	2017	2018	2019E	2020E	2021E
<b>Security</b>					
Net debt	4254	5872	5982	6388	6730
Debt / equity	77%	75%	74%	73%	72%
Net gearing	77%	75%	74%	73%	72%
Interest cover	6.6	5.3	5.4	6.0	6.1
EBITDA / interest paid	6.6	5.3	5.4	6.0	6.1
Dividend payout ratio	77%	69%	69%	74%	75%
Dividend cover	1.3	1.4	1.5	1.4	1.3
Loan-to-value (LTV)	34%	35%	36%	36%	35%
Return on net asset value	5.2%	5.2%	5.4%	5.5%	5.5%

Source: Company data, Berenberg estimates

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Company	Disclosures
Aroundtown SA	2, 3

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Production of the recommendation completed: 09.09.2019, 08:55 GMT

**Historical price target and rating changes for Aroundtown SA in the last 12 months**

Date	Price target - EUR	Rating	First dissemination GMT	Initiation of coverage
02 January 19	9.20	Buy	2019-01-02 08:12	05 November 15

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Sell	10.24 %	0.00 %
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