

Aroundtown SA

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

Q1
 Results

RATING
BUY

PRICE TARGET
€ 9.50

Return Potential 28.8%
 Risk Rating Medium

SOLID FUNDAMENTALS REMAIN HARD TO IGNORE

First quarter headline figures beat our forecasts and showed strong annualised growth led by net rental income (+28%) and FFO 1 (+30%). Commercial assets topped €14.8bn after some €0.3bn in Q1 acquisitions. Management also noted total signings of €1.4bn YTD. The good Q1 performance translated into 12% FFOPS 1 growth and a 6% NAVPS increase (excluding perpetuals). The pipeline remains full and management confirmed full year guidance (FFOPS 1: €0.41 - €0.42). We reiterate our Buy rating and €9.5 price target.

Good Q1 should help improving sentiment Expropriation jitters hurt sector and AT share performances earlier this year. Although the media (wrongly) continues to blame German landlords for real estate woes (soaring rents and the acute supply shortage), we believe investors are beginning to mute out the media static. Aroundtown's solid fundamentals remain hard to ignore after another strong three month performance. Q1 results confirmed the company's operational strengths with both NAV and FFO 1 rising sequentially and on an annualised basis. Commercial properties now total €14.8bn (+4.4% YTD) while the portfolio value also edged 2.5% higher to €2,214 / m² (YE18: €2,159 / m²). FFOPS 1 grew 5% Q/Q to €0.11 and NAVPS climbed 6% in the first three months. The company is tracking well towards our full year targets (FFOPS 1: +9%; NAVPS: +11% Y/Y). Guidance calls for FFOPS 1 €0.41 - €0.42 (FBe: €0.43). Annualised FFO 1 of €472m now tops the upper end of guidance (€470m), but we leave our forecasts unchanged, since several potential disposals remain under review.

Strong LFL performances extend good operational trajectory Both the top line and earnings showed solid performances led by a 37% Y/Y rise in adjusted EBITDA commercial, recurring long-term (overleaf). This was spurred by a continued strong like-for-like (LFL) performance. As of Q1, AT realised total LFL rental growth of 4.5% comprising 2.3% in-place rent and 2.2% occupancy increases. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Net rent (€m)	233.38	448.98	633.00	771.03	824.44	877.06
Adj. EBITDA (€m)	268.2	429.3	606.0	731.2	781.0	831.1
Net income (€m)	901.09	1,539.00	1,827.80	1,157.11	1,106.19	1,027.91
EPS (diluted) (€)	0.88	1.35	1.49	0.88	0.84	0.78
EPRA NAV ¹ (€m)	4,349.05	7,656.28	10,290.10	11,217.10	12,087.71	12,852.61
NAVPS ¹ (€m)	5.40	7.63	9.11	9.94	10.71	11.39
DPS (€)	0.16	0.23	0.25	0.28	0.30	0.32
FFO 1 (€m)	165.63	293.00	405.74	480.16	515.39	551.20
FFOPS 1 (€)	0.25	0.36	0.39	0.43	0.46	0.49
Liquid assets (€m)	833.44	841.60	1,599.50	1,570.47	1,645.65	1,387.45

¹ includes perpetual notes

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 28 May 2019

Closing Price	€ 7.38
Shares outstanding	1129.00m
Market Capitalisation	€ 8329.76m
52-week Range	€ 6.90 / 7.88
Avg. Volume (12 Months)	3,445,493

Multiples	2018	2019E	2020E
P/FFO 1	19.1	17.3	16.2
P/EPRA NAV	0.8	0.7	0.7
FFO 1 Yield	5.2%	5.8%	6.2%
Div. Yield	3.4%	3.7%	4.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2019

Liquid Assets	€ 2,119.00m
Current Assets	€ 2,670.00m
Intangible Assets	€ 10,734.00m
Total Assets	€ 20,509.00m
Current Liabilities	€ 445.00m
Shareholders' Equity	€ 10,393.00m

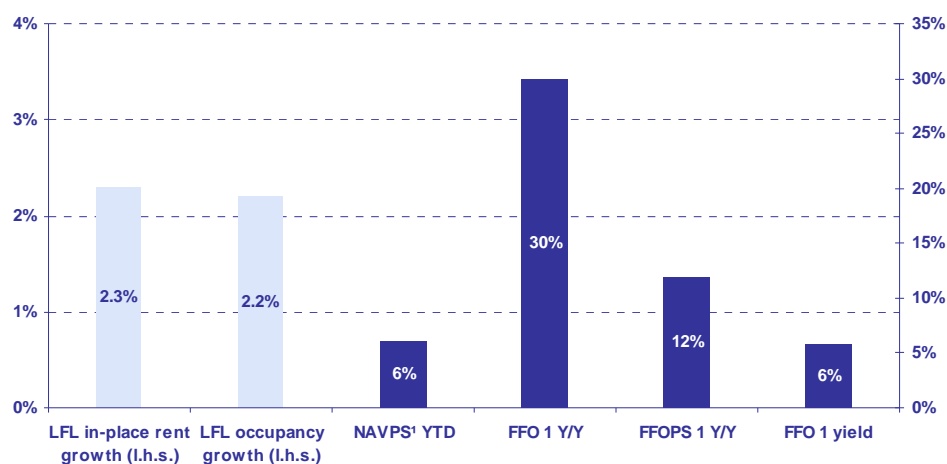
¹ includes perpetual notes

SHAREHOLDERS

Avisco Group	28.9%
Blackrock	5.3%
Free Float	65.8%



Figure 1: Operating performance as of 31 March



¹ excludes perpetual note

Source: First Berlin Equity Research; Aroundtown

This was led by the hotel and office segments, while London spearheaded the LFL regional increase at 10%, followed by Berlin with 8%, and Hamburg and Amsterdam (5%). The company continues to guide for ~4.0% LFL growth for 2019. The residential landlord, Grand City Properties (39% AT stake), reported 3.9% LFL growth (3.6% in-place rent; 0.3% occupancy) in Q1.

Table 1: First quarter results vs estimates

All figures in EURm	Q1/19	Q1/19E	variance	Q1/18	variance
Recurring LT net rental income	176	164	7.3%	131	34%
Net rental income	178	169	5.1%	139	28%
Adjusted EBITDA commercial, recurring LT	148	132	12.0%	108	37%
Margin	84%	81%	-	82%	-
Adjusted EBITDA	178	158	13.0%	134	33%
FFO 1	118	108	8.9%	91	30%
FFOPS 1 (€)	0.11	0.10	8.9%	0.09	12%

Source: First Berlin Equity Research; Aroundtown

Recurring LT net rental income climbed 34% Y/Y to €176m. On an annualised basis, the KPI now stands at €702m and 14% above the 2018 figure. Adjusted EBITDA (including GCP contribution), which reflects recurring operational profit excluding capital gains and revaluation effects, rose 33% Y/Y to €178m. FFO 1 beat our estimate and climbed 30% Y/Y to €118m in Q1/19 equating to FFOPS 1 of €0.105 (+12%). The company is thus tracking well towards guidance (table 2 overleaf).

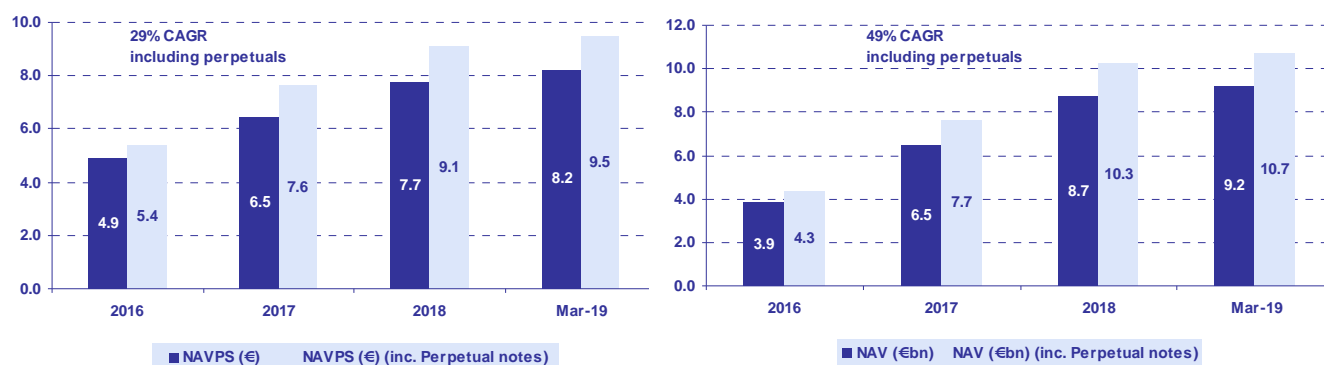
Property revaluations and capital gains lagged behind last year's strong pace and totalled €240m for the quarter (Q1/18: €347m). The slowdown was well signalled the past quarters. Revaluations were driven by operational measures (80%) and yield compression (20%). Management noted on the call that some 20% of assets were assessed in Q1.

**Table 2: Q1 guidance based on current portfolio and signed deals**

	Unit	Q1 annualised	2019 Guidance	2019E
FFO 1	€m	472	460 - 470	480
FFOPS 1	€	0.42	0.41 -0.42	0.43
DPS (65% of FFO)	€	0.27	0.27	0.28
LFL net rent growth	%	4.4	~4%	4.4
LTV	%	37	< 45	37

Source: First Berlin Equity Research; Aroundtown

As of 31 March, EPRA NAV totalled €9.2bn (€8.2 / share) compared to €8.7bn at year end 2018 (€7.7 / share, +6%). NAV growth owes predominantly to the strong net profit of €454m recorded for the three month period. Including the perpetual notes, which are classified as equity under IFRS, this KPI stood at €10.7bn or €9.5 /share (+4%).

Figure 2: EPRA NAVPS and EPRA NAV developments

Source: First Berlin Equity Research; Aroundtown

Table 3: Commercial properties as of 31 March

	Investment properties (€m)	Rentable area ('000 m ²)	EPRA vacancy	Annualised net rent (€m)	In-place rent (€/m ²)	Value (€/m ²)	Rental yield
Office	7,183	3,006	11.1%	360	10.7	2,390	5.0%
Hotel	4,392	1,365	6.5%	214	13.8	3,217	4.9%
Logistics/Wholesale	1,267	1,401	5.5%	72	4.5	904	5.7%
Retail	962	464	8.3%	57	10.3	2,073	6.0%
Land for development & rights	999						
Total	14,803	6,236	8.9%	703	9.9	2,214	5.1%

Source: First Berlin Equity Research; Aroundtown

**Table 4: Financial highlights**

All figures in EURm	3M/19	2018	variance
Cash and liquid assets	2,119	1,601	32%
Investment property	14,803	14,174	4%
Investment in equity-accounted investees	2,294	2,215	4%
Total assets	20,509	19,041	8%
Net debt	6,400	5,871	9%
Total equity	10,393	9,944	5%
Equity ratio	51%	52%	-
EPRA NAV	9,207	8,742	5%
EPRA NAV inc perpetual notes	10,734	10,290	4%
Loan-to-Value (LTV)	37%	35%	-

Source: First Berlin Equity Research; Aroundtown

The debt structure featured an LTV of 37% alongside a 1.8% average cost of debt with a 7.5 year maturity, which still gives AT the longest maturity among the German commercial landlords. The interest coverage ratio (ICR) and unencumbered asset ratio stood at 4.7x and 75% respectively at the end of Q1. We also note there are no significant (>€0.5bn) maturities until 2023 in the debt portfolio. Management confirmed financial firepower of +€1bn (excluding the €1.4bn in signed deals) and a €1bn pipeline of mainly office and hotel properties in AT's core markets, while keeping the LTV below 45%.



ECONOMIC PROFIT MODEL

The AT share price has recovered ~10% since expropriation jitters help send the stock tumbling in late March, due to Aroundtown's Grand City exposure. Q1 results confirm our positive views on the company.

External growth remains robust with +€1.4bn in signed deals YTD. And reversionary upside of 33% equates to some €935m in rental income of which ~80% should translate into FFO 1. This upside should allow the commercial landlord to grow cash earnings and reward investors with attractive FFO 1 and dividend yields for years to come. We maintain our Buy rating and €9.5 PT.

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	615	658	701	746	753
(+) Revaluations	778	685	562	489	190
(+) Investment income (GCP)	116	123	130	137	138
(-) Tax expense	113	110	104	103	81
NOPAT	1,396	1,356	1,288	1,268	1,000
Total assets	21,209	22,915	24,040	24,857	24,857
(-) Current liabilities	715	759	802	830	830
(+) Current financial debt	27	27	27	27	27
(-) Cash	1,199	1,274	1,016	893	893
(+) Deferred taxes	998	1,182	1,353	1,520	1,520
Capital employed (CE)	20,320	22,090	23,602	24,680	24,680
ROCE	7.3%	6.4%	5.6%	5.3%	4.1%
WACC	4.0%	4.0%	4.0%	4.0%	4.0%
ROCE-WACC	3.3%	2.4%	1.7%	1.3%	0.1%
Economic Profit	634	514	380	309	19
NPV	619	483	344	268	564
Fair value calculation					
Total return	2,278				
(+) NAV ¹ (2018)	8,742				
(-) Dividend to be paid	264				
Equity value	10,757				
Diluted SO ('000)	1,129				
Fair value per share (€)	9.50				
Target price (€)	9.50				
Share price (€)	7.38				
Return potential	28.8%				
Dividend yield	4.0%				
Total return potential	32.8%				

¹ excludes perpetuals



INCOME STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net rent	233	449	633	771	824	877
Operating and other income	40	78	114	139	149	158
Rental and operating income (RI)	274	527	747	910	973	1,035
Capital gains, property revaluations & other	720	1,327	1,536	778	685	562
Result from equity-accounted investees	197	228	252	162	162	165
Property OpEx	-75	-147	-219	-266	-284	-302
Administration & other OpEx	-8	-15	-23	-27	-29	-30
Operating income (EBIT)	1,107	1,920	2,294	1,557	1,508	1,430
Net financial result	-47	-70	-115	-147	-153	-162
Other financial expenses	-36	-15	-94	0	0	0
Pre-tax income (EBT)	1,024	1,836	2,085	1,409	1,355	1,268
Tax expense	-20	-34	-44	-55	-59	-63
Deferred tax	-103	-263	-213	-197	-190	-178
Tax result	-123	-297	-257	-252	-249	-240
Comprehensive net income	901	1,539	1,828	1,157	1,106	1,028
Minority interests	169	228	161	116	111	103
Perpetual notes	4	29	46	46	46	46
Net income to owners	728	1,283	1,620	995	949	879
Basic EPS (€)	1.11	1.56	1.54	0.88	0.84	0.78
Diluted EPS (€)	0.87	1.35	1.49	0.88	0.84	0.78
Adjusted EBITDA commercial	195	339	497	615	658	701
Ratios						
Adj EBITDA commercial margin	83.4%	81.7%	80.9%	79.7%	79.8%	79.9%
Tax rate	7.4%	7.8%	7.3%	7.5%	7.5%	7.5%
Expenses as % of revenues						
Property OpEx	27.5%	27.9%	29.3%	29.2%	29.2%	29.2%
Administration & other OpEx	2.9%	2.8%	3.0%	3.0%	3.0%	2.9%
Y/Y Growth						
Revenues	118.7%	92.6%	41.7%	21.8%	6.9%	6.4%
Operating income	6.3%	73.5%	19.4%	-32.1%	-3.2%	-5.2%
Adjusted EBITDA	109.8%	74.3%	46.5%	23.8%	7.0%	6.6%
Net income/ loss	6.0%	76.1%	26.3%	-38.6%	-4.6%	-7.4%
Funds from Operations (FFO)						
Adjusted EBITDA commercial portfolio	195	339	497	615	658	701
Finance expense	-47	-70	-115	-147	-153	-162
Tax expense	-20	-34	-44	-55	-59	-63
Minority adjustment	-7	-9	-7	-8	-9	-10
Other adjustments	0	10	8	7	4	4
FFO 1 commercial (long-term recurring)	120	237	339	411	441	471
Adjustment for GCP contribution	46	56	67	69	74	80
FFO 1	166	293	406	480	515	551



BALANCE SHEET

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Assets						
Current assets, total	1,100	1,523	2,102	1,968	2,067	1,831
Cash and cash equivalents	641	736	1,243	1,199	1,274	1,016
Short-term investments	181	99	366	366	366	366
Receivables	111	163	277	337	360	383
Other current assets	11	18	5	5	5	5
Assets held for sale	155	508	211	61	61	61
Non-current assets, total	6,989	12,247	16,939	19,241	20,848	22,208
Property, plant & equipment	23	26	33	34	34	35
Investment properties	5,016	9,804	14,174	16,337	17,819	19,056
Equity accounted investees	1,557	1,906	2,215	2,323	2,428	2,531
Other LT assets	393	512	517	547	567	586
Total assets	8,089	13,770	19,041	21,209	22,915	24,040
Shareholders' equity & debt						
Current liabilities, total	349	566	606	715	759	802
Short-term debt	160	17	27	27	27	27
Accounts payable	108	267	451	555	593	631
Provisions & other current liabilities	81	282	128	133	138	144
Long-term liabilities, total	3,799	5,955	8,491	9,657	10,524	10,913
Long-term debt	3,385	5,078	7,444	8,408	9,080	9,286
Deferred tax liabilities	366	752	882	1,080	1,269	1,447
Other LT liabilities	48	125	164	169	175	180
Minority interests	373	674	567	683	793	896
Shareholders' equity	3,568	6,576	9,377	10,155	10,838	11,428
Total consolidated equity and debt	8,089	13,770	19,041	21,209	22,915	24,040
Ratios						
ICR (x)	5.7	5.4	4.7	4.2	4.3	4.3
Equity ratio	48.7%	52.6%	52.2%	51.1%	50.8%	51.3%
EPRA NAV ¹	3,871	6,483	8,742	9,669	10,540	11,305
EPRA NAVPS ¹ (€)	4.9	6.5	7.7	8.6	9.3	10.0
Net debt	2,737	4,400	5,871	6,864	7,462	7,926
Return on equity (ROE)	25.3%	23.4%	19.5%	11.4%	10.2%	9.0%
Loan-to-value (LTV)	39.3%	35.9%	35.3%	36.5%	36.6%	36.5%
Interest coverage ratio (x)	5.7	5.4	4.7	4.2	4.3	4.3

¹ excludes perpetual notes



CASH FLOW STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net income	901	1,539	1,828	1,157	1,106	1,028
Depreciation & amortisation	2	2	2	2	2	2
Capital gains, property revaluations & other	-720	-1,327	-1,536	-778	-685	-562
Profit share from equity accounted investees	-197	-228	-252	-162	-162	-165
Shared based payment in a subsidiary	2	2	3	0	0	0
Net finance expenses	83	85	208	147	153	162
Tax result	123	297	257	252	249	240
Operating cash flow	195	369	510	619	662	705
Changes in working capital	-17	-13	-39	28	9	10
Provisions for other liabilities	-1	-2	-3	2	2	2
Dividend received	18	41	51	54	57	62
Tax paid	-16	-33	-46	-55	-59	-63
Net operating cash flow	179	362	473	647	671	716
CapEx/ intangibles	-7	-9	-5	-2	-3	-3
Disposal/ investment in investment properties, net	-1,051	-615	-915	-1,236	-796	-676
Acquisition/disposals of subsidiaries	-994	-1,946	-1,829	0	0	0
Proceeds from investments in financial assets	151	-184	-175	-5	-5	-5
Cash flow from investing	-1,900	-2,754	-2,924	-1,243	-804	-683
Debt financing, net	1,786	1,165	2,588	963	673	206
Equity financing, net	741	1,561	953	0	0	0
Dividends paid	-34	-155	-226	-264	-312	-335
Other financing activities	-204	-13	-265	0	0	0
Net paid financing expenses	-45	-66	-97	-147	-153	-162
Cash flow from financing	2,244	2,492	2,953	552	208	-291
Net cash flows	523	100	501	-44	75	-258
Assets held for sale - cash	-2	-5	6	0	0	0
Cash, start of the year	121	641	736	1,243	1,199	1,274
Cash, end of the year	641	736	1,243	1,199	1,274	1,016
Adjusted EBITDA commercial/share (€)	0.30	0.41	0.47	0.54	0.58	0.62
FFO 1	166	293	406	480	515	551
FFOPS 1 (€)	0.25	0.36	0.39	0.43	0.46	0.49
Y/Y Growth						
EBITDA/share	75.7%	38.6%	14.4%	15.5%	7.0%	6.6%
FFO 1	76.1%	76.9%	38.5%	18.3%	7.3%	6.9%
FFOPS 1 (€)	47.5%	40.7%	8.1%	10.4%	7.3%	6.9%

FIRST BERLIN 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...22	↓	↓	↓	↓
23	29 November 2018	€7.58	Buy	€9.50
24	15 March 2019	€7.58	Buy	€9.50
25	4 April 2019	€7.43	Buy	€9.50
26	Today	€7.38	Buy	€9.50

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First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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In accordance with Section 34b Paragraph 1 of the German Securities Trading Act [WpHG] and Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) financial analyses may only be passed on or publicly distributed if circumstances or relations which may cause conflicts of interest among the authors, the legal entities responsible for such preparation or companies associated with them are disclosed along with the financial analysis.

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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

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