

AROWNTOWN

Buy (unchanged) **Target: Euro 8.70** (unchanged)



1 | April | 2019

■ **Price (Euro)** **7.35**
52 weeks range 7.92 / 5.99

■ **Key Data**

ISIN LU1673108939
Ticker AT1
Bloomberg AT1 GR
Reporting standard IFRS
Market Cap (Euro million) 8,234
Number of shares (million) 1,120.3
Free Float 71.1%
Free Float Market Cap (Euro million) 5,854
CAGR Adj. EBITDA profit ('18-'21e) 16.6%

Multiples	2018	2019e	2020e	2021e
Market Cap/ Total revenues	11.0	9.2	8.0	6.9
PE-Ratio	4.8	5.1	5.0	5.0
Dividend Yield	3.4%	4.0%	4.3%	4.7%
Price-to-Book-Ratio	0.99	0.89	0.81	0.75
P/ NAV-ratio	0.95	0.84	0.76	0.70

Key Data per share (Euro)	2018	2019e	2020e	2021e
Earnings per share (EPS)	1.54	1.44	1.46	1.48
Dividend per share (DPS)	0.25	0.29	0.32	0.34
Book Value per Share (BVPS)	7.44	8.29	9.07	9.82
EPRA NAV per share	7.70	8.76	9.63	10.46

Financial Data (Euro Millions)	2018	2019e	2020e	2021e
Revenues (rental income)	747.1	896.5	1,031.0	1,185.6
Capital gains, Prop. Revaluations	1,536.4	1,387.5	1,426.4	1,466.3
EBITDA profit	2,295.1	2,285.9	2,435.0	2,601.0
Adj. EBITDA profit (cash driven)	606.0	729.4	839.5	960.9
Operating profit (EBIT)	2,293.5	2,284.1	2,433.0	2,599.0
Net financial result	-208.4	-152.8	-178.8	-200.0
Pre-tax profit (EBT)	2,085.1	2,131.3	2,254.2	2,399.0
Taxation	-257.3	-319.7	-338.1	-359.9
Net profit after minorities	1,620.4	1,596.9	1,690.7	1,802.4
FFO I	405.7	499.7	570.8	645.3
Shareholders' equity (Euro billion)	7.8	9.2	10.5	12.0
Property portfolio (Euro billion)	16.2	19.6	23.0	26.9
RoE (after tax)	18.8%	14.8%	13.6%	12.7%
Equity ratio (incl. equity minorities)	52.2%	50.6%	49.3%	48.0%

■ **Main Shareholders**

Avisco Group Plc. 28.9%

■ **Financial calendar**

1Q 2019 report 29 May 2019
AGM 26 June 2019
1H 2019 report 28 August 2019

■ **Analysts**

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2018 FFO I up by 38% to Euro 406m, Dividend of 25 cents slightly above our estimate – Commercial portfolio increased by 45% to Euro 14.2bn – still Euro 8.70 and Buy

Last Thursday, on 28 March, Arowntown released its 2018 annual report. Revenues were at Euro 747m up 42% compared to last year's Euro 527m and also significantly on top of our estimate of Euro 667m. Recurring long-term net rental income contributed Euro 614m to that amount, reflecting an increase of 48% to last year's number of Euro 415m. The growth was mainly driven by another significant increase of the portfolio, but also by a strong like-for-like growth of 4.8%, 2.6% of which comes from in place rent increases and 2.2% from occupancy increases. Property revaluations and capital gains came in at a high number of almost Euro 1.54bn. This number and the 4.8% like-for-like increase are evidence of the firm's ability to unlock potential in the portfolio due to operational improvements and good acquisitions. The share in profit from investment in equity-accounted investees at Euro 252m, property operating expenses at Euro 252m and administrative and other expenses at Euro 22.5m are more or less in line with our estimates and with the firm's growth. This amounted to an operating profit of almost Euro 2.3bn, up by almost 20% from last year's number of Euro 1.92bn. Adjusted EBITDA, excluding non-operational items, amounted to Euro 606m, up by more than 41% from last year's Euro 429m. Finance expenses grew from Euro 70m to almost Euro 115m and were in line with our estimate. Pre-tax profit hiked from almost Euro 1.84bn to almost Euro 2.1bn, an increase of almost 14%. The firm's bottom line after minorities was at Euro 1.62bn up more than 26% compared to Euro 1.28bn in 2017 and also on top of our estimate of Euro 1.41bn. The FFO I results hiked from Euro 293m to Euro 406m, a plus of 38% and met our estimate of Euro 405m. This translates into FFO I per share of 39 cents (2017: 36 cents), a hike of 8% despite the significant increase in shares due to a capital hike and effects from bond conversion. The management will propose a dividend of 25 cents per share at the AGM in June, slightly higher than our estimate of 24 cents.

The hike in the firm's commercial portfolio was again impressive in 2018. Over the course of the year the company acquired Euro 3.7bn of new properties. Along with the revaluation gains, the portfolio thus grew by 45% from Euro 9.8bn to almost Euro 14.2bn. This growth was despite the sale of about Euro 740m, which were sold at 12% over net book value. The EPRA vacancy was reduced from 9.4% to 8.8% while the WALT increased from 7.2 years to 8.2 years. The rental yield remained constant at 5.2%. The significant growth was achieved while maintaining a very healthy balance sheet with an equity ratio of 52% and a LTV of 35%.

The company's EPRA NAV including perpetual notes is up 23% at Euro 9.10 per share. Our outlook for Arowntown remains very positive for the coming years as we expect further lucrative and sustainable growth. We confirm our Buy recommendation and also stick to our target price of Euro 8.70.

Aroundtown SA

Industry: Real Estate
Sub-segments: Commercial (incl. Hotel)/ Residential

Target Countries: Germany
Registered: Luxembourg
German Office: Berlin
Foundation: 2004
Employees: 374
IR Contact: Timothy Wright
Email: info@aroundtownholdings.com

Credit Rating: BBB+ by S&P
 (Investment Grade)

Stock exchange: Prime Standard Frankfurt

ISIN: LU1673108939
Bloomberg: AT1 GR

MANAGEMENT			
 Shmuel Mayo CEO	 Andrew Wallis Deputy CEO	 Eyal Ben David CFO	
Jelena Afxentiou Director	Oschrie Massatschi Director	Frank Roseen Director	Markus Kreuter Indep. Director
	Markus Leininger Indep. Director	Dr. Axel Froese Indep. Director	

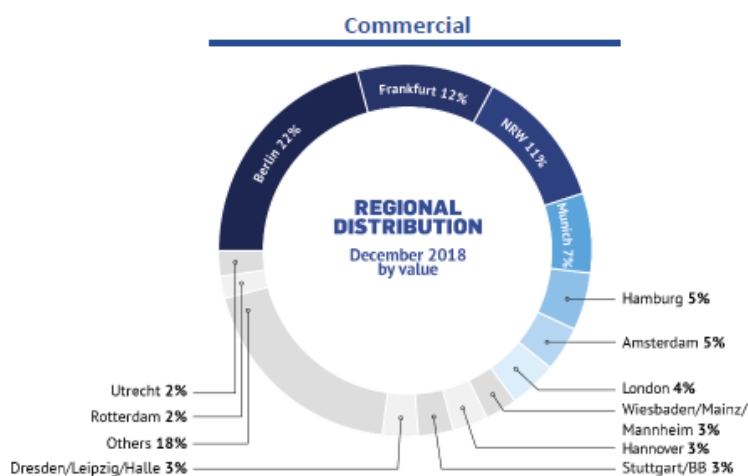
ADVISORY BOARD
 Dr. Gerhard Cromme Chairman
 Yakir Gabay
 Claudio Jarczyk

Founded in 2004, AROUNDTOWN SA ("AT1") is a real estate investment company specializing in identifying and investing in value-add and income generating properties. Aroundtown SA is listed in the German Prime Standard since June 2017 and member of German MDax index since 19 March 2018.

AT's primary real estate target markets are economically attractive and densely populated regions in Germany. The company is active in both the commercial as well as the residential real estate sector. Nonetheless, it more plays an active role in the commercial sector since the residential exposure within the portfolio is represented by an interest in the publicly listed company Grand City Properties ("GCP") with a stake of 39% as of FY 2018. Grand City is a German MDax member since 18 Sept. 2017. Commercial properties have a share of 83% relatively to the total portfolio of investment properties based on appraisal values and logically residential properties cover the remaining share of 17%. Since 2015, AT no longer consolidates GCP for the presentation of its consolidated financial statement since IFRS 10 resp. the principle of control as the new measure for consolidation applies. The commercial part of the portfolio consists to 55% of office properties followed by hotel, industrial, and retail. Hotel properties currently have a portfolio share of about 28%, and like residential properties, their exposure is also indirect via an interest in another company, namely the publicly listed company Prime City Investments ("PCI") with a stake of 98% as of FY 2018. The geographical allocation of the commercial portfolio by value is illustrated in the graph below.

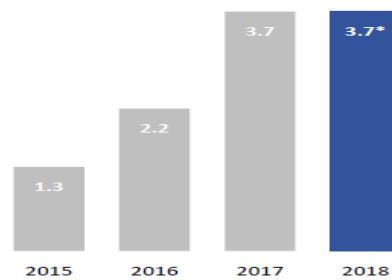
AT comes along with a well-experienced management team where each member supplements the team with a distinctive professional background in various fields like investment banking, real estate investment and asset management and project development for instance. AROUNDTOWN targets turnaround opportunities of distressed and/or mismanaged properties and has a strong track record with regard to property turnaround by working out sound individual business plans. Detailed property-related data are deliberately not disclosed. AT argues that they are doing so in order to direct investors' attention on the bottom line on company level rather than being monitored on the performance of each individual property.

Apart from a proven turnaround strategy AT also benefits from its preferred buyer status among its long-time established network within the real estate industry, from excellent refinancing opportunities due to its investment grade credit rating of BBB+, assigned by S&P in December 2017 and from its strong organizational setup in terms of personnel resources and capital intense infrastructure. One very good example is the GCP's service center which operates 24/7 hours - the only one among its peer group with Deutsche Wohnen, Vonovia, LEG and TAG for instance - and uses sophisticated data bases and ERP management software in order to analyze huge bulk of information data for the sake of a better tenant satisfaction and retention rates and for an improved fulfillment of requirements of prospective tenants.

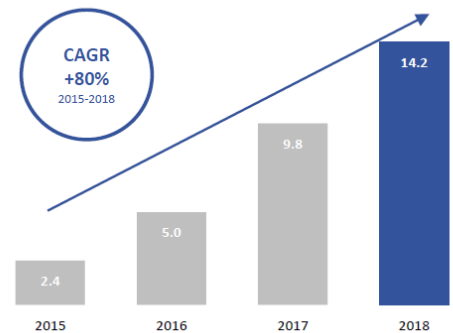


Source: Company Data, SRC Research

ACQUISITIONS (in €bn)



INVESTMENT PROPERTY (in €bn)



Source: Aaroundtown FY 2018 presentation

With portfolio additions of Euro 3.7bn in 2018 the firm managed to again reach same high acquisitions level of 2017. These purchased properties were mainly offices and hotels and were acquired at a multiple of 20. In terms of locations, Aaroundtown focused on German cities such as Berlin, Frankfurt and Munich, as well as international locations such as London, Amsterdam and Utrecht.

The commercial portfolio has now reached a value of more than Euro 14bn and has almost sextupled since 2015. This represents a CAGR of 80%. In 2019, Aaroundtown has furthermore added another Euro 600m of new properties to the portfolio year to date. We expect another hike in 2019, similar to the years before.

DECEMBER 2018

	Investment properties (in €M)	Area (in k sqm)	EPRA Vacancy	Annualized net rent (in €M)	In-place rent per sqm (in €)	Value per sqm (in €)	Rental yield
Berlin	2,753	880	10.2%	102	10.5	3,130	3.7%
Frankfurt	1,434	459	19.0%	50	10.8	3,120	3.4%
Munich	811	263	7.7%	36	11.4	3,081	4.4%
NRW	1,601	1,090	9.2%	97	7.5	1,469	6.0%
Hamburg	459	259	6.0%	25	8.8	1,772	5.4%
London	585	81	7.8%	25	29.7	7,177	4.4%
Amsterdam	610	192	7.9%	30	13.8	3,185	5.0%
Hannover	406	286	9.6%	24	8.0	1,422	6.0%
Wiesbaden/Mainz/Mannheim	375	178	6.3%	23	10.7	2,100	6.1%
Stuttgart/BB	347	160	2.3%	21	11.0	2,170	6.1%
Dresden/Leipzig/Halle	380	213	4.8%	22	9.0	1,788	5.8%
Rotterdam	310	138	7.3%	22	13.3	2,246	6.9%
Utrecht	275	124	7.7%	16	10.7	2,219	6.0%
Other	2,850	1,789	7.1%	194	9.5	1,593	6.8%
Land for development & other rights	978						
Total	14,174	6,112	8.8%	687	9.9	2,159	5.2%

Source: Aaroundtown FY 2018 presentation

The largest part of the portfolio is located in the city of Berlin (Euro 2.75bn), while the NRW region (Euro 1.6bn) has become the second largest share followed by Frankfurt (Euro 1.43bn). The EPRA vacancy rate came down from 9.4% at FY 2017 to 8.8%. The firm's in-place rent per sqm increased from Euro 9.0 to Euro 9.9 while the value per sqm was lifted from Euro 1,923 to Euro 2,159.

DECEMBER 2018	Investment properties (in €M)	Area (in k sqm)	EPRA Vacancy	Annualized net rent (in €M)	In-place rent per sqm (in €)	Value per sqm (in €)	Rental yield
Office	7,128	2,998	10.9%	359	10.7	2,377	5.0%
Hotel	3,925	1,255	6.0%	201	13.9	3,127	5.1%
Logistics/Wholesale/Other	1,226	1,411	6.1%	71	4.5	869	5.8%
Retail	917	448	7.5%	56	10.4	2,046	6.1%
Land for development & other rights	978						
Total	14,174	6,112	8.8%	687	9.9	2,159	5.2%

Source: Aaroundtown FY 2018 presentation

In 2018 the portfolio has more shifted toward hotels. While in FY 2017 the breakdown by value was at 61% offices and 19% hotels, at FY 2018 the portfolio consists of 55% offices and 28% hotels. These include many well-known brands and are located in top locations. About 26% of the hotels are located in Berlin and 11% in London.

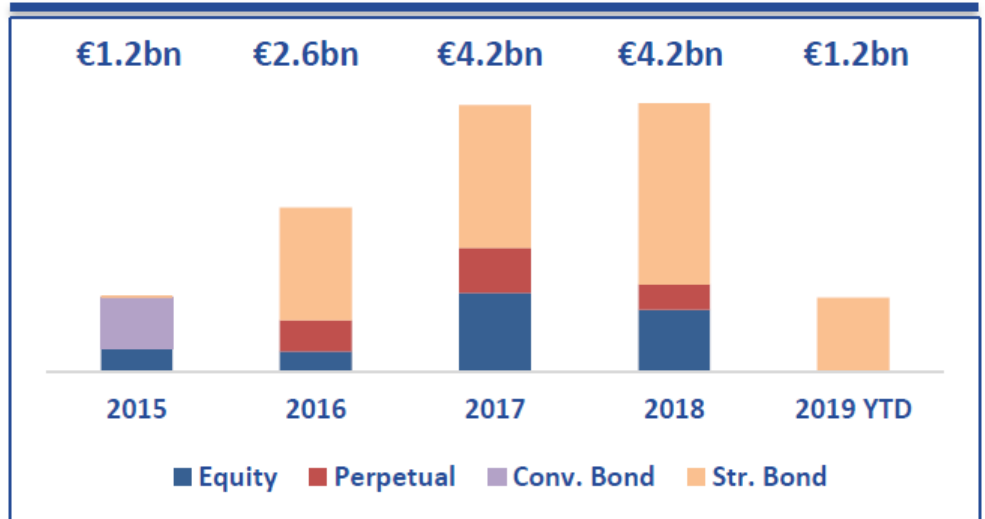
Hotel:	Rooms:	Brand:
Hilton Berlin Gendarmenmarkt Prime Center	601	
Bristol Berlin Ku'damm Prime Center (ex-Kempinski)	301	
InterContinental Frankfurt Prime Center	473	
Hilton London Hyde Park Prime Center	132	

Hotel:	Rooms:	Brand:	Hotel:	Rooms:	Brand:
Crowne Plaza Berlin Prime Center Potsdamer Platz	256		Holiday Inn Dresden Prime Center	144	
AC by Marriott Berlin Mitte	130		Crowne Plaza Frankfurt Congress Hotel	396	
Moxy by Marriott Berlin Mitte	101		Mark Apart Berlin Prime Center Ku'damm	120	
Ex-Sheraton Brussels Prime Center	533		Schlosshotel Grunewald Charlottenburg Berlin	54	
Sheraton Rome	640		Radisson Blu Prime Center Baden-Baden	162	
Hilton London Chelsea	172		Mercure Munich Conference Center Messe	167	
Hilton Edinburgh Royal Mall Prime Center	211		Ibis Munich Conference Center Messe	137	
Hilton Dublin Prime Center	324		Manchester City Center Hotel	228	
Crowne Plaza Düsseldorf/Neuss	246		Seminaris Campus Hotel Berlin	186	
DoubleTree by Hilton London Center Angel/King's-Cross	373		Wyndham Garden Düsseldorf Prime Center Königsallee	82	
Berlin Holiday Inn City East	473		Hotel Im Wasserturm Cologne Prime Center	88	
Berlin Holiday Inn City West	336		Ibis Berlin Alexanderplatz	61	
Essen Holiday Inn Prime City Center	168		Melia Munich Hotel Munich Messe	134	
Sheraton Hotel Hannover Business District	147		Mercure Liverpool Prime Center Hotel	225	
NH Hotel Dortmund Prime Center	190		Resorthotel Schwielowsee Berlin- Potsdam	155	
Berlin - Müggelsee	176				

Source: Aaroundtown FY 2018 presentation

Aroundtown has been very active on the capital markets and has raised a massive amount of Euro 13.4bn since 2015. In 2018, the firm raised Euro 4.2bn, the same amount as in 2017. Thereof about 30% comes from Equity (including conversions and perpetuals), about 6% was placed in convertible bonds and the remaining more than 60% were straight bonds. With this financing mix, the firm managed to have a healthy balance sheet with an equity ratio of 52% and a LTV of 35%. This allows Aroundtown to continue to grow the portfolio in the coming years.

Capital market activity per year



Source: Aroundtown FY 2018 presentation

AROUNDTOWN SA 31/12 IFRS (Euro Millions)	2016	2017	2018	2019e	2020e	2021e	CAGR '18 - '21e
Revenues	273.7	527.1	747.1	896.5	1,031.0	1,185.6	16.6%
Capital gains, property revaluations and others	719.5	1,326.6	1,536.4	1,387.5	1,426.4	1,466.3	
thereof net revaluation result	654.8	1,315.2	1,459.6	1,318.1	1,355.0	1,393.0	
thereof capital gains and bargain purchase	64.7	11.4	76.8	69.4	71.3	73.3	
Share in profit from investment in equity-accounted investees	197.1	228.4	251.6	271.7	288.0	305.3	
Property-related operating expenses	-75.4	-147.1	-219.1	-246.5	-283.5	-326.1	
Administrative and other expenses	-7.9	-14.7	-22.5	-25.1	-28.9	-33.2	
thereof depreciation and amortization	-2.0	-2.0	-1.6	-1.8	-2.0	-2.0	
Operating profit (EBITDA)	1,109.0	1,922.3	2,295.1	2,285.9	2,435.0	2,601.0	
Operating Profit (EBIT)	1,107.0	1,920.3	2,293.5	2,284.1	2,433.0	2,599.0	
Finance expenses	-47.4	-69.7	-114.6	-131.8	-151.6	-174.3	
Other financial results	-35.9	-15.0	-93.8	-21.0	-27.2	-25.7	
Net financial result	-83.3	-84.7	-208.4	-152.8	-178.8	-200.0	
Pre-tax profit (EBT)	1,023.7	1,835.6	2,085.1	2,131.3	2,254.2	2,399.0	4.8%
Tax (cash and deferred)	-122.6	-296.6	-257.3	-319.7	-338.1	-359.9	
Net profit before minorities	901.1	1,539.0	1,827.8	1,811.6	1,916.1	2,039.2	
Minorities	-172.9	-256.4	-207.4	-214.7	-225.4	-236.8	
Net profit after minorities	728.2	1,282.6	1,620.4	1,596.9	1,690.7	1,802.4	
Number of shares (weighted average, without dilution)	653.2	821.5	1,052.6	1,105.2	1,160.5	1,218.5	
Number of shares (weighted average, diluted)	829.5	925.0	1,082.8	1,136.9	1,193.8	1,253.5	
Earnings per share (EPS, basic)	1.11	1.56	1.54	1.44	1.46	1.48	
Earnings per share (EPS, diluted)	0.87	1.35	1.49	1.38	1.40	1.42	
Dividend per share (DPS)	0.16	0.23	0.25	0.29	0.32	0.34	
EBITDA	1,109.0	1,922.3	2,295.1	2,285.9	2,435.0	2,601.0	4.3%
- Capital Gains, revaluations and other income	-719.5	-1,326.6	-1,536.4	-1,387.5	-1,426.4	-1,466.3	
- Net adjustment for Grandcity and others	-123.4	-138.1	-142.3	-149.4	-152.4	-155.5	
- Other adjustments	2.1	-28.3	-10.4	-19.6	-16.7	-18.4	
Adjusted EBITDA	268.2	429.3	606.0	729.4	839.5	960.9	16.6%
AT's finance expenses	-47.4	-69.7	-114.6	-131.8	-151.6	-174.3	
AT's share in GCP's finance expenses	-11.8	-10.3	-17.6	-20.4	-23.9	-26.4	
Adjusted Finance Expenses	-59.2	-80.0	-132.2	-152.2	-175.5	-200.7	
ICR (Interest coverage ratio)	4.5	5.4	4.7	4.8	4.8	4.8	
Financing expenses	-47.4	-69.7	-114.6	-131.8	-151.6	-174.3	
Current cash tax expenses	-19.9	-27.5	-44.4	-47.6	-61.9	-80.4	
Adjustments for the holdings rates in GCP and other adjustments	-35.3	-33.1	-41.3	-50.3	-55.3	-60.9	
FFO I	165.6	299.0	405.7	499.7	570.8	645.3	16.7%
FFO I per share (weighted average, without dilution)	0.25	0.36	0.39	0.45	0.49	0.53	
Shareholders' Equity (without minorities)	3,090.2	5,402.3	7,829.5	9,162.7	10,528.6	11,960.0	15.2%
Shareholders' Equity (including minorities)	3,941.1	7,249.9	9,944.3	11,614.3	13,319.0	15,099.5	
Growth Shareholders' Equity (without minorities)	47%	75%	45%	17%	15%	14%	
EPRA NAV	3,870.8	6,483.0	8,742.4	10,231.1	11,756.2	13,354.5	15.2%
Balance Sheet sum	8,089.0	13,770.4	19,040.8	22,931.5	27,033.6	31,443.9	
Equity Ratio	48.7%	52.6%	52.2%	50.6%	49.3%	48.0%	
RoE (after tax)	22.9%	22.9%	18.8%	14.8%	13.6%	12.7%	-12.4%
Property portfolio (including equity-accounted investees)	7,306.6	12,231.5	16,221.9	19,628.5	22,965.3	26,869.5	
Book Value per share (Euro) - undiluted	4.73	6.58	7.44	8.29	9.07	9.82	9.7%
NAV per share (Euro) - undiluted	4.90	6.50	7.70	8.76	9.63	10.46	10.7%

SRC Research

- Der Spezialist für Finanz- und Immobilienaktien -

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Rating chronicle:

Company	Date	Rating	former share price	former target
Aroundtown	November 28, 2018	Buy	7.29 €	8.70 €
Aroundtown	August 29, 2018	Accumulate	7.60 €	8.30 €
Aroundtown	May 29, 2018	Buy	6.91 €	8.30 €
Aroundtown	March 29, 2018	Buy	6.20 €	7.70 €
Aroundtown	November 27, 2017	Buy	6.04 €	7.00 €
Aroundtown	November 2, 2017	Buy	6.11 €	6.80 €
Aroundtown	September 20, 2017	Buy	6.03 €	6.60 €
Aroundtown	August 30, 2017	Buy	5.38 €	6.60 €
Aroundtown	June 8, 2017	Buy	4.60 €	6.20 €
Aroundtown	April 4, 2017	Buy	4.54 €	5.90 €

Please note:

The share price mentioned in this report is from 29 March 2019. AROUNDTOWN SA mandated SRC Research for covering the share.

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