AROUNDTOWN

Buy (opening coverage) **Target: Euro 5.90**

21 | April | 2016

Der Spezialist für Finanzaktien

Price (Euro)	**4.27**
52 weeks range	4.50 / 3.15

Key Data

ISIN	CY0105562116
Reuters	ALATP.PA
Bloomberg	ALATP FP
Reporting standard	IFRS
Market Cap (Euro million)	2,852
Number of shares (million)	667.9
Free Float	35%
Free Float Market Cap (Euro million)	998
CAGR Adj. EBITDA profit ('15 -'18e)	48.6%

Multiples	**2015**	**2016e**	**2017e**	**2018e**
Market Cap/ Total revenues	22.8	12.3	8.6	6.3
PE-Ratio	**3.4**	**6.7**	**6.5**	**5.7**
Dividend Yield	1.2%	1.6%	2.3%	3.5%
Price-to-Book-Ratio	**1.11**	**1.14**	**1.03**	**0.92**
P/ NAV-ratio	**0.77**	**0.74**	**0.72**	**0.64**

Key Data per share (Euro)	**2015**	**2016e**	**2017e**	**2018e**
Earnings per share (EPS)	**1.26**	**0.64**	**0.65**	**0.75**
Dividend per share (DPS)	0.05	0.07	0.10	0.15
Book Value per Share (BVPS)	**3.85**	**3.73**	**4.14**	**4.63**
EPRA NAV per share	**5.56**	**5.79**	**5.91**	**6.71**

Financial Data (Euro '000)	**2015**	**2016e**	**2017e**	**2018e**
Revenues (rental income)	**125,162**	**232,801**	**332,906**	**455,082**
Capital gains, Prop. Revaluations	814,511	250,455	260,724	268,024
EBITDA profit	1,041,372	567,518	680,063	813,893
Adj. EBITDA profit (cash driven)	**153,289**	**263,508**	**373,817**	**502,623**
Operating profit (EBIT)	**1,040,995**	**567,055**	**679,628**	**813,427**
Net financial result	-12,597	-33,930	-39,259	-40,500
Pre-tax profit (EBT)	**-107,644**	**-34,562**	**-36,541**	**-39,752**
Taxation	-107,644	-34,562	-36,541	-39,752
Net profit after minorities	**686,892**	**413,108**	**514,039**	**639,049**
FFO I	**94,450**	**156,970**	**256,724**	**374,379**
Shareholders' equity (Euro million)	2,105	2,489	2,961	3,540
Property portfolio (Euro million)	**3,614**	**4,000**	**4,560**	**4,970**
RoE (after tax)	**37.7%**	**15.6%**	**16.6%**	**17.5%**
Equity ratio (incl. equity minorities)	54.6%	55.6%	55.1%	55.9%

Main Shareholders

Founders and management	65%

Financial calendar

1Q 2016 report	27 May 2016
2Q 2016 report	29 August 2016
SRC Forum Financials & Real Estate	**8 September 2016**
3Q 2016 report	28 November 2016

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A cash machine with a very healthy balance – SRC Research starts coverage with Buy / € 5.90

AROUNDTOWN Property Holdings (AT) is a real estate investment company focused on the acquisition and turnaround of mismanaged properties located primarily in Germany. AT is well-experienced in managing all asset types ranging from office, retail, hotels and residential which is indirectly held via a 32% stake in the listed company Grand City Properties. On 29 March, AT released its 2015 report. Please note that due to the deconsolidation of AT's stake in GCP in 2015, comparison with previous 2014 consolidated figures cannot consistently been conducted on a like-for-like basis. Adjusted EBITDA less of non-operational items such as capital gains, revaluations and disposal gains more than doubled from Euro 59.7m up to Euro 153.3m and the increase would even be higher taking into account pro-forma deconsolidated figures for 2014. This steep increase mainly results from high growth of the portfolio volume. As far as the commercial part of the portfolio is concerned the volume of investment properties increased by 470% from Euro 420m in 2014 to 2.4bn in 2015. The same holds true for the residential part of the portfolio but to a far lesser extent with an increase of c. 80% only. On a group's level, the total assets now amount to about Euro 8bn. Furthermore, the steep increase of the operating performance has also been achieved through constantly lowering the vacancy rate from 15% down to 10%, improved in-place rents from Euro 6.50 up to Euro 7.50 per sqm and finally through a scalable platform allowing the degression of fixed costs. The year 2015 was highly profitable as depicted by the high increment of FFO I which more than doubled from Euro 39 to Euro 94m. Financially, AT is in an excellent position. The LTV of 34.5% is far below the industry average and even only at 19.9% if the conversion of in-the-money-convertible bonds is taken into account. In December, S&P assigned AT an investment grade credit rating of BBB- reflecting the portfolio's good scale and diversification, the allocation across regions with good economic fundamentals, including low unemployment and solid supply and demand characteristics, as well as the long lease structure and the strongly rising cash flow.

After the recent capital hike of last week (65m new shares bringing 266m gross proceeds) and the recent issue of series C convertibles (Euro 300m) in 4Q 2015 the firm has enough financial firepower to quickly accelerate the portfolio size by at least Euro 800m to Euro 1.1bn without stretching the financial ratios. We expect cash driven adjusted EBITDA and FFO numbers to rise by about at least 50% per year on average for the next three years. We value the share with an FFO excess return approach and put in conservative assumptions for the growth of the portfolio and the FFO. We come up – on a diluted basis including the series B convertibles – with a Fair Value of Euro 5.90 per share. This is our target price which offers almost 40% upside. We start the coverage with Buy.

SWOT Analysis

Strenghts

- The management team is very senior and well-experienced with profound background in various fields like investment banking as well as real estate investment and asset management and property project development.
- AT has a proven track record in terms of regular (re-)financing activities on the equity and bond market. Especially since 2015 this is demonstrated by some successful capital increases of Euro 587m in mid-2015 and in April 2016 and three successful placements of straight and convertible bonds with a total volume of almost Euro 1.0bn. The second convertible recently issued in 4Q 2015 has a much smaller coupon of only 1.5% than the first (3.0%). The investment grade by S&P with a BBB- rating, recently assigned in December 2015, allows for further debt financing at low cost.
- In the background of rapid portfolio growth, AT successfully achieves the turnaround of acquired assets in a timely manner which empowers the portfolio generating steeply rising levels of funds from operations (FFO).
- The portfolio mix regarding allocation across three distinctive asset types and across regions resp. cities each with a sizeable cluster, which is tackled by a uniform approach of value creation and infrastructure in place, provides a scalable platform in order to enormously benefit from economies of scale.
- AT is deemed a preferred buyer within its sourcing network for off-market deals and keeping deal related issues confidential and unclosed which is especially important in the background of mismanaged or distressed assets where sellers have an interest disposing their assets in a closed shop.

Weaknesses

- The level of given data about concrete locations, yields, sqm, general portfolio split offs from various perspectives is very low (e.g. like-for-like reviews, single vacancy development for single asset classes). Little data about Top Tenants and prolongation items to judge upcoming possible risk clusters.
- AT's business model requires intense involvement of dedicated management teams in the disciplines acquisition, development and refurbishment and finally asset management and letting. However, the amount of personnel resources needed in the first two disciplines highly depends on market opportunities and therefore a constant influx of identified new investments.
- Revaluation gains are as of now largely unrealized since the trading activities are quite low and do not fit to the current strategic goals. However, this means that the management's capability of disposing assets and generating additional cash from trading activities has not been market proven yet. Therefore, AT relies on constant capital injections, either debt or equity, in order to further marching along the growth path.

Opportunities

- AT can capitalize on upside potentials by two consecutive approaches. Firstly, AT puts all its effort on stabilizing and turning around the acquired assets in order to quickly contribute stable income to the portfolio. After that, there is still room for further upside potentials simply by upward repositioning in terms of higher quality as perceived by the market and higher rents.
- The well-diversified portfolio across the three sectors commercial, hotel and residential facilitates tactical adjustments of the portfolio mix towards sectors with the most appealing investment opportunities without changing the overall strategic objectives at all.

Threats

- The sources for acquisition opportunities might run dry resp. distressed property owners potentially manage the turnaround on their own rather than selling off far below market value. In this event AT has to review its strategy as to where the future growth will come from.
- A change in European monetary policy by the ECB regarding the termination of the currently all-time low-interest period will result in a relatively high increase of interest expenses and might also lead to higher expenses for AT.

Aroundtown Property Holdings PLC

Industry:	Real Estate
Sub-segments:	Commercial (incl. Hotel)/ Residential
Target Countries:	Germany
Registered	Larnaca, Cyprus
German Office:	Berlin
Foundation:	2004
Employees (year-end 2015):	...
IR Contact:	Timothy Wright
Email	info@aroundtownholdings.com
Credit Rating:	BBB- by S&P (Investment Grade)
Stock exchange:	Alternext Paris Open Market Frankfurt
ISIN:	CY0105562116
Bloomberg:	ALATP FP

MANAGEMENT


Shmuel Mayo
CEO


Eyal Ben David
CFO

Reshef Ish-Gur Director	Elena Koushos Director	Jelena Afxentiou Director
Barak Cohen Construction Manager	Oschrie Massatschi Head of Operations	Idan Kaplan Financial Manager

ADVISORY BOARD


Yakir Gabay
Chairman


Andrew Wallis


Dr. Axel Froese

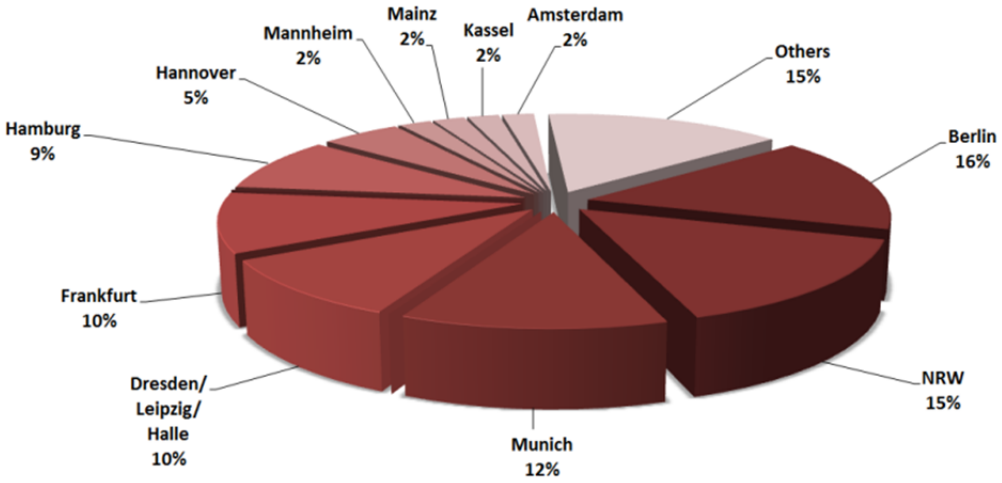
Founded in 2004, AROUNDTOWN Property Holdings PLC ("AT") is a real estate investment company specializing in identifying and investing in value-add and income generating properties. Aroundtown Property Holdings PLC is a public limited liability company incorporated under the laws of Cyprus, having its registered office in Larnaca in Cyprus, and is listed on the Euronext Paris stock exchange since June 2015.

AT's primary real estate target markets are ecoconomically 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 plays an active role in the commercial sector only 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 32% as of April 2016. Commercial properties have a share of 72% relatively to the total portfolio of investment properties based on appraisal values and logically residential properties cover the remaing share of 28%, i.e. based on total appraisal value the portfolio of AT is bigger than the one of GCP wheras based on market cap it is the other way around with GCP having a market cap of c. Euro 3.1bn and AT having Euro 2.9bn even though the leverage of AT is by far lower than the one of GCP. This clearly indicates that commercial portfolios are still traded on the equity capital markets at a substantially higher risk premium in comparison to residential portfolios. 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 nearly one half of office properties followed by hotel, retail and industrial. Hotel properties currently have a portfolio share of about 20% and likewise residential properties are also depicted by an interest in another company, namely the publicly listed company Prime City Investment ("PCI") with a stake of at last 78% as of April 2016. The geographical allocation of the total 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 disstressed and/or mismanaged properties and has a strong track record in property turnaround by working out sound individual business plans. Datailled property-related data are deliberately not diclosed, as argued by AT for the reason of being monitored by actuals and perspective investors on bottom line performance figures on company level rather than on an individual property level. A showcase of 11 acquisitions across Germany since 2008 with total space of 260,000 sqm which represents about 13% of the total commercial portfolio highlights the range of achieved vacancy reductions between 23% and 100% and net rental increases between 47% and 466%.

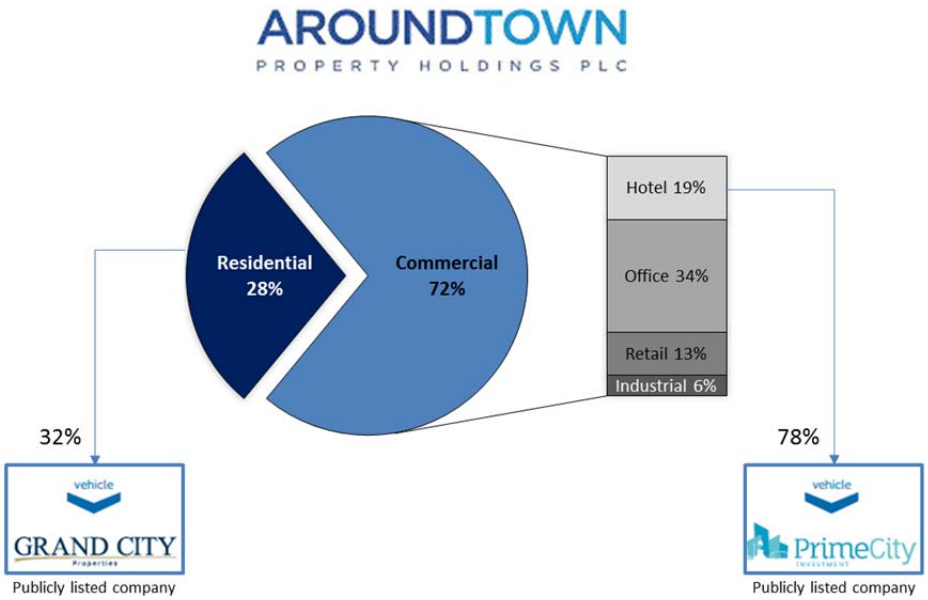
Apart from a proven turnaround strategy AT also benefits from its preferred byuer status among its long-time established network within the real estate industry, from excellent refinancing opportunities due to its investment grade credit rating of BBB- recently assigned by S&P and from its strong organizational setup in terms of personnel ressources 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 oder 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 persepective tenants.

Regional distribution as of April 2016
(value-add opportunities in attractive, densely populated areas)



Source: Company Data, SRC Research

Portfolio snapshot (overview as of April 2016)



Composition

AROUNDTOWN has a significant exposure of 28% in residential real estate indirectly held via a 32% stake in Grand City Properties ("GCP"). GCP is a Luxembourg-based and publicly listed real estate company on the Frankfurt stock exchange. The firm is searching for opportunistic transactions in distressed residential real estate properties with turnaround potential in densely populated regions in Germany.

AT also invests by one-fifth in hotel real estate properties but likewise in residential real estate properties also indirectly via a 78% stake in Prime City Investment ("PCI"). PCI is a Cyprus-based and publicly listed real estate company on the Alternext stock exchange in Paris. PCI focuses on investing and repositioning of mismanaged hotel properties in Germany, primarily in key locations with regard to high frequency of travellers for tourism, business or fair trade reasons.

Through GCP and PCI one-half of the portfolio is build up by indirect investments. Due to AT's majority stake in and substantial control over PCI, AT consolidates PCI whereas GCP has been first time deconsolidated by AT since 2015 due to AT constantly reducing the share of participation and subsequently the control over GCP.

The direct commercial real estate exposure of AT comprises office, retail and industrial real estate properties whereas office real estate properties dominate active investments by two third relatively to retail (25%) and industrial (10%) real estate properties. The company's commercial portfolio is located in key locations which benefit from strong demographic and economic fundamentals, such as Berlin, Munich, Hamburg, Frankfurt, Dresden, Düsseldorf, Mannheim and Leipzig. Due to the high diversity AT's portfolio has a limited dependency on single tenants with a tenant base of over 1,400 tenants spread across a wide range of sustainable market sectors which further reduces cluster risk.

Brief overview

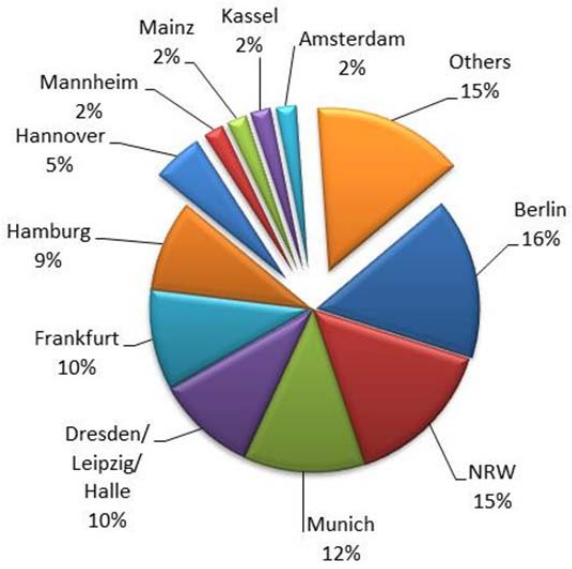
Some of the main parameters of each of the two generic portfolios are described as follows:

	Commercial portfolio	
Number of properties:	55 hotels with 8,700 rooms Total number for the entire portfolio is not disclosed	
Property Value:	Euro 3.5bn, thereof hotel with EUR 0.9m	
Lettable space:	2.5 million sqm, thereof hotel with 0.5 million sqm	
Vacancy rate:	8.5%	
WALT:	9 yrs.	
Average current in-place rent:	7.5 Euro/sqm per month	
Top 5 tenants: (office only)	HVB, City of Hannover, HP, Deutsche Telekom, E-Plus	
Geographical allocation:	Key locations which benefit from strong demographic and economical fundamentals, such as Berlin, Munich, Hamburg, Frankfurt, Dresden, Düsseldorf, Mannheim and Leipzig	

	Residential portfolio	
Number of units:	80,000 units (another 16,000 units under management but owned by third parties)	
Property value:	Euro 4.5bn	
Vacancy rate:	10%	
Tenancy:	14 yrs.	
Average current in-place rent:	5.3 Euro/sqm per month	
Geographical allocation:	Densely populated areas with a focus on North Rhine-Westphalia, Berlin and metropolitan regions of Frankfurt, Mannheim, Munich, Hannover, Hamburg, Leipzig/Halle and Dresden	

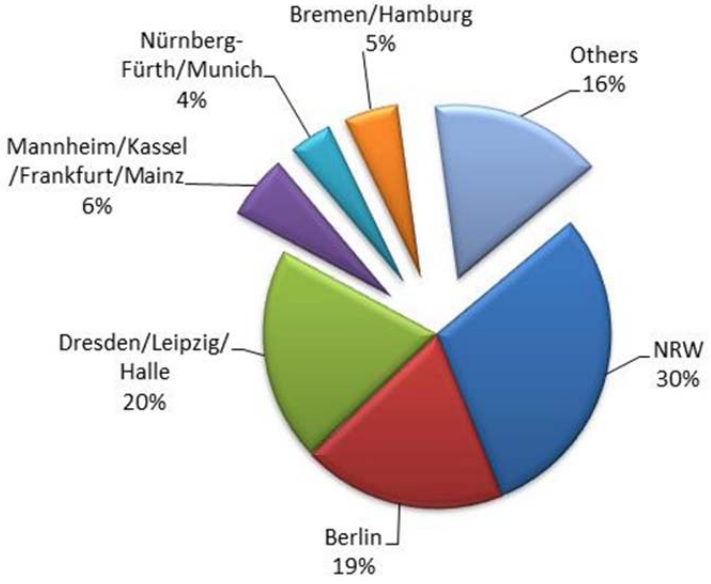
Regional distribution of portfolio assets by value in %

– AROUNDTOWN portfolio –

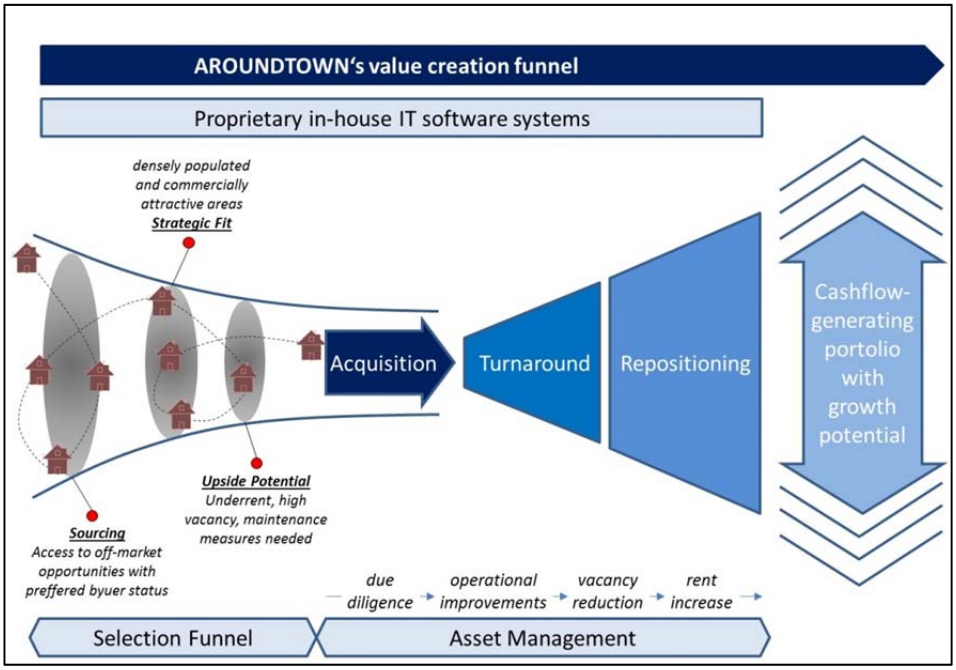


As seen above, AT's portfolio composition is more characterized by a broader range of some regional clusters in comparison to GCP's residential portfolio. Whereas GCP predominantly focuses on North Rhine-Westphalia, Berlin and the metropolitan regions of Leipzig, Halle and Dresden, AT also focuses on North Rhine-Westphalia and Berlin on one hand but to a far lesser extent to the metropolitan regions of Leipzig, Halle and Dresden in favor of the three major German cities Munich, Frankfurt and Hamburg as key locations with the German office, hotel and retail segments.

– residential sub-portfolio –



AT's business model for value creation – from deal sourcing, acquisition and turnaround activities to a stable income producing portfolio



Source: company data, SRC Research

Fast but thorough and reliable screening procedures

As depicted above, AROUNDTOWN operates with a fully integrated real estate value chain. In the selection funnel, AT established a multi-layer selection process in order to screen suitable investments with high scrutiny while applying pre-determined acquisition criteria in a disciplined manner. AT targets turnaround opportunities of mismanaged properties which by its definition are in most cases still slightly cash generating, albeit with significant upside potential in rent and/or occupancy and thereby consequentially with upside potential in value. Apart from mismanaged properties, AT also tackles properties that experience demand shortages in their current market. Thus, turnaround activities also include altering the primary usage of a property and repositioning the property towards a new group of perspective tenants.

Focus on income generating portfolios with very limited downside risk

The pre-determined acquisition criteria are as follows:

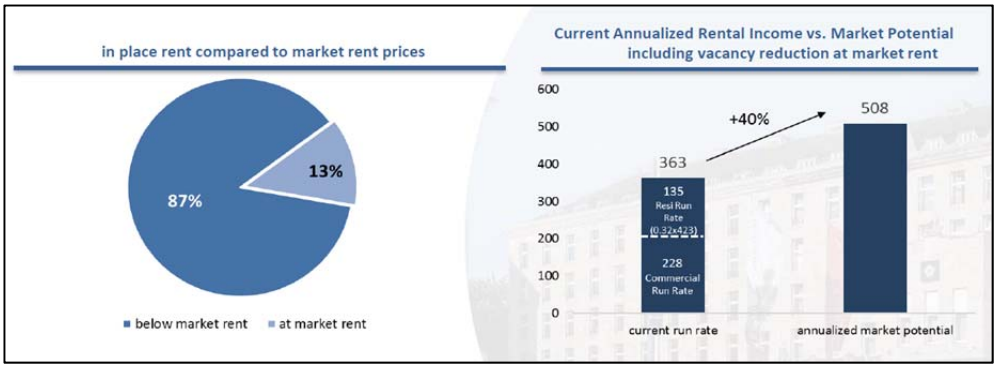
Source: company data, SRC Research

Exclusive access to off-market investment opportunities

AT's executable strategy and its value proposition has been proven by its management team leading the company for more than a decade now. During these 12 years of being active in the market, AT built up its reputation for being a reliable and trustful party in negotiations and transactions. This now gives AT the comfort to benefit from a preferred buyer status across its sourcing network and to have access to off-market transactions. This allows AT achieving better deals rather than being exposed to auction pressure in an ordinary bidding process. AT sources deals from a large and diverse universe of investment opportunities. Potential opportunities arise from banks, loan funds, distressed owners, private and institutional investors or even from court auctions for instance.

Rigorous and reliable business approach

As seen in the picture below, as of April 2016 about 87% of the contracted rents within the portfolio are below market level. By leveraging this identified under-rent potential in combination with a vacancy reduction, AT estimates the growth potential of current rents on a like-for-like basis in a range of up to 40%. This clearly shows that AT has rigorously followed upon its turnaround business model in a reliable and disciplined manner, i.e. overcoming a potential temptation of acting opportunistic and chasing for an opportunity that might look suitable to the portfolio in the first instance.



Source: company data

Investment process

Straight-forward and swift decision-making procedures

Willingness to purchase not constrained by financial limitations

Each property is analyzed with regard to both the threats as well as the opportunities of each property while also taking into account its individuality. During the due diligence phase AT's construction team analyzes potential capex requirements which subsequently are priced in the valuation and a detailed and customized business plan is created where all of the turnaround measures being commercially prudent and in line with the value-add strategy are already specifically laid down prior to final takeover. Once AT's management comes to the conclusion that a potential investment fits into its portfolio, AT is able to speed up the negotiations since it usually submits an offer without subject to financing by banks or other third parties thanks to its solid liquidity and its financial strength. AT does not solely rely on legal advice from external firms. In fact AT is able to work on several deals simultaneously by a joint effort of both its own personnel resources within its legal department and its business relationship with external law firms.

Sophisticated IT systems as a necessary prerequisite for efficiently coping with the complexity and KPI measurement

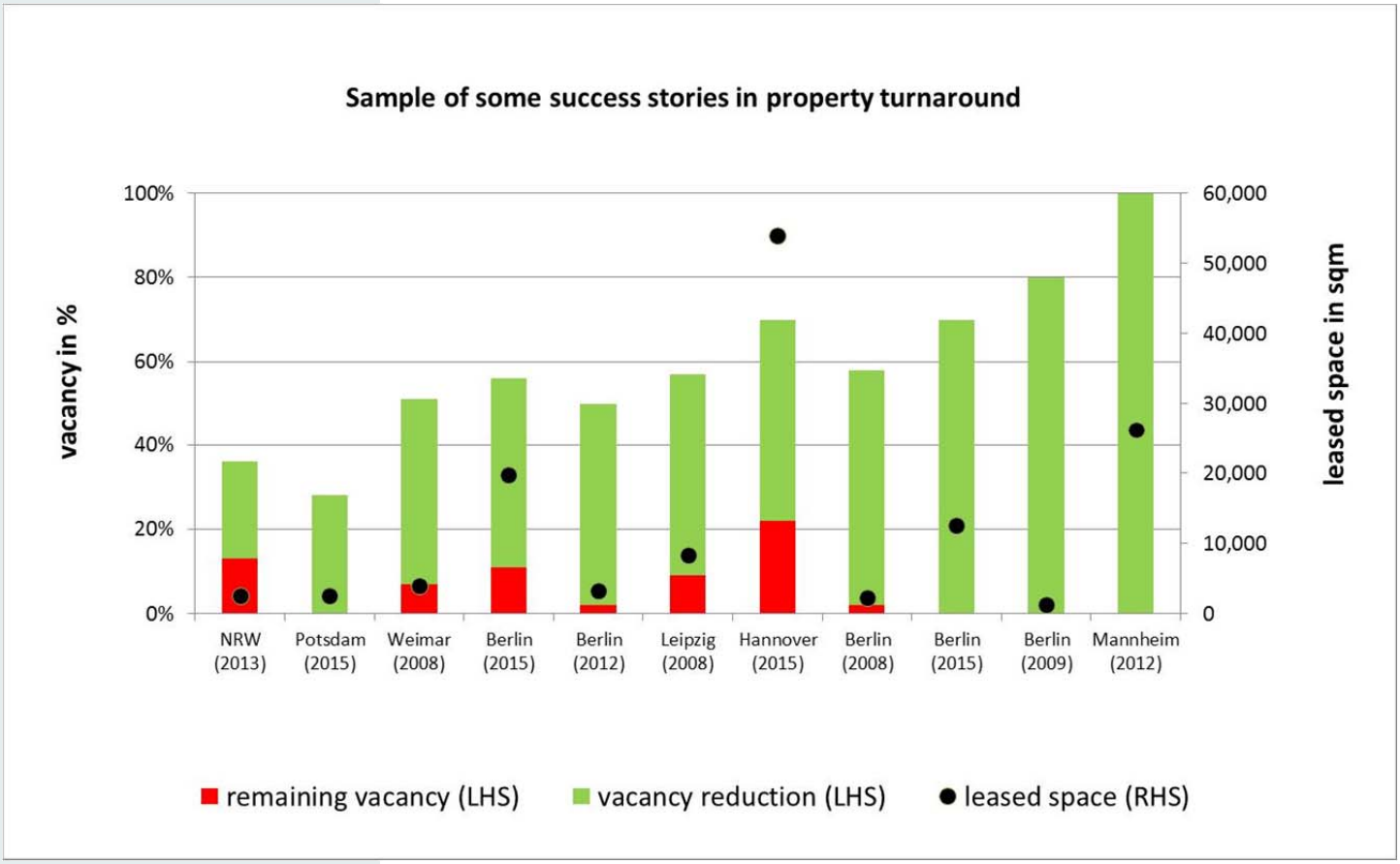
Turnaround activities

AT developed proprietary in-house IT software systems in order to better cope with the high degree of complexity given the range of different asset types, multiple lot sizes, a large tenant base, various contractual agreements and so forth. Especially during the turnaround phase, the advantages of AT's proprietary IT / software platform comes into play since it is quite crucial precisely tracking the turnaround progress resp. monitoring relevant key performance indicators over the course of the turnaround phase and finally mapping the results with the underlying strategic objectives, both done on the basis of each individual investment case. Thus, once business plans are created they are automatically integrated into AT's IT systems which enables the management to keep control of all of the operational and financial parameters.

Source: SRC Research (exemplary snapshot)

AROUNDTOWN has demonstrated the soundness and success of its turnaround strategy by some portfolio deals that have successfully been transacted since 2008. The selected sample comprises 11 portfolios which are scattered all over Germany with total lettable space of c. 260,000 sqm, thus representing about 13% of the total portfolio size by lettable space as of April 2016. As seen below, the green bar highlights the vacancy reduction which is depicted on the left axis whereas the black dots show the respective leased space as depicted on the axis on the right hand side. The highest vacancy reduction has been achieved in Mannheim where a fully vacant property of 26,200 sqm has been entirely leased up whereas the highest leased-up amount of lettable space has been achieved in Hannover with a vacancy reduction of c. 50%.

Remarkable showcase demonstrating strong track record in property turnaround management



Source: company data, SRC Research

The FFO excess return valuation presents a strong 40% upside for the AT share – even with conservative assumptions

We forecast the FFO cash earnings for the next five years and set these returns in relation to the Cost of Equity to determine an excess return adding to NAV.

For the valuation of the AROUNDTOWN share we use a FFO excess return valuation model. We project the FFO cash earnings for the next five years and set these returns in relation to the future Cost of Equity to determine an excess return which adds to the EPRA NAV. For the years 2016 to 2018 we have our detailed projection stemming from our P & L forecast. We project the FFO to increase by more than 60% in both years 2016 and 2017. For 2018 we expect the FFO to grow by more than 45%. This growth scenario is supported by the very low LTV and the high equity ratio which allows for an accelerated growth of the property portfolio. The recent capital hike by the issue of 65 million new shares for Euro 4.10 per share is another argument for an excellent growth story to come. As we have no detailed projection for 2019 and 2020 yet, we may expect a hike of at least 25% per year which is a rather cautious approach in our view, given the impressing track record of the firm regarding the strong cash flow generation and the diversity of funding so far.

Our approach is careful as we gradually increase the Cost of Equity and only expect a rather small hike for the 2019 and 2020 FFO.

We set the Cost of Equity at 4.25% for 2016 and have a slowly rising Cost of Equity forecast for the coming years as general interest environment might return from an almost Zero interest environment and the company's risk premiums and Beta may also slowly rise as later years have a higher degree of uncertainty about the sourcing of new attractive under- or mismanaged properties and other promising revitalization stories.
Thus, the Cost of Equity in our valuation model gradually increases from 4.25% in 2016 to 5.4% in 2020.

Cost of Equity	**4.25%**	**4.55%**	**4.87%**	**5.14%**	**5.40%**
thereof risk free	**1.00%**	**1.20%**	**1.40%**	**1.55%**	**1.70%**
thereof risk premium	**3.0%**	**3.1%**	**3.2%**	**3.3%**	**3.4%**
thereof Beta factor	**0.25%**	**0.25%**	**0.27%**	**0.29%**	**0.30%**

Source: SRC Research

We take a much high number of shares into consideration as we calculate in the full dilution of series B convertibles and of course also the recently issued 65m new shares

In our valuation, for the years 2016 to 2020 AROUNDTOWN adds much more than Euro 900m excess return to its NAV and ends up with a Fair Value of Euro 5.90 per share. To be conservative again, we added about 131 million new shares coming from the series B convertible which was started in April 2014. This senior unsecured convertible runs for four more years, until 5 May 2020, and has a 3.0% coupon per year. The number of AROUNDTOWN shares will rise with this dilution from 665m to almost 800m, as this convertible bond is already in the money. We come up with a Fair Value per share of slightly above Euro 5.90 with a full dilution of series B convertibles. This translates into an upside potential for the share price of almost 40% at the current share price level. With the basic number of shares of 665m the Fair Value per AT share would be even much higher, at approx. Euro 7.06.

Without a slowing down FFO growth in 2019 and 2020 the share even has a 50% upside potential

If we would continue a growth rate of 45% for the FFO in the years 2019 and 2020 (similar to our detailed forecast for 2018) we come up with a Fair Value per share of about Euro 6.32 which would mean an even higher upside potential of 50% for the AT share.

FFO excess return valuation

Euro '000	2016e	2017e	2018e	2019e	2020e	CAGR 2016e - 2019e
FFO I	156,970	256,724	374,379	467,973	584,967	43.9%
y-o-y change	66.2%	63.5%	45.8%	25.0%	25.0%	
EPRA NAV	3,763,912	4,647,253	5,695,618	6,379,092	6,953,210	19.2%
FFO return on NAV	4.61%	6.68%	8.57%	9.93%	11.70%	29.1%
Cost of Equity	4.25%	4.55%	4.87%	5.14%	5.40%	
thereof risk free	1.00%	1.20%	1.40%	1.55%	1.70%	
thereof risk premium	3.0%	3.1%	3.2%	3.3%	3.4%	
thereof Beta factor	0.25%	0.25%	0.27%	0.29%	0.30%	
Excess return	**0.36%**	**2.13%**	**3.70%**	**4.79%**	**6.30%**	
Value creation	13,632	98,834	210,653	305,793	438,326	
NPV of value creation	**13,365**	**94,074**	**194,667**	**274,356**	**381,810**	

EPRA NAV 2016e	3,763,912
Value creation by excess return (2016e - 2020e)	**958,271**
EPRA NAV including future value creation (2016e - 2020e)	**4,722,184**
Number of shares (diluted by series B convertible which is in the money)	795,829
Fair Value per share (FFO excess return valuation)	**5.93 €**
Current share price	4.27 €
Upside potential	**39.0%**

Source: SRC Research

Very healthy balance sheet, low Cost of Debt and an undemanding funding structure allows for a steep future growth

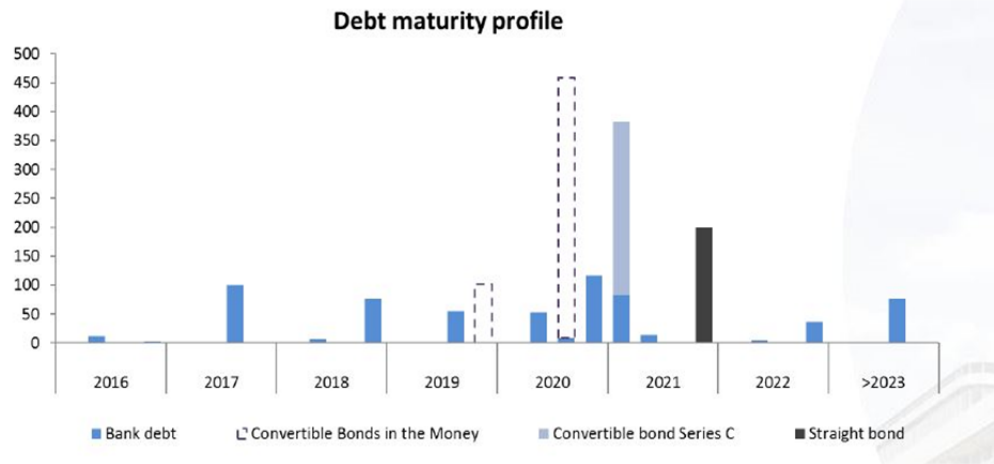
The success of AROUNDTOWN is based on the ability to find the right deals, meaning the "right" properties to turn them into a successful and cash rich story, as we mentioned above.

BBB- IG rating by S & P. The management strives to further improve the rating to A-. We expect it to improve to BBB in short term as first step.

The second pillar besides the deal sourcing is the financial ability to finance a steep growth from a solid financial framework. AT has an excellent financial scope. The Equity ratio is high at 55% at year-end 2015, even at almost 67% assuming the conversion of in-the-money convertibles. In addition to that solid ground, this healthy equity ratio is now flattered by the recent capital hike on 12 April of 65m new ordinary shares (Euro 266m gross proceeds). The last capital hike was in July 2015 (Euro 320m). In addition to the sound equity base which will probably further grow by the series B and C convertibles, the LTV and the Cost of Debt numbers are already low. The debt maturity profile is undemanding with no significant short term maturities. AROUNDTOWN (as well as Grand City) have the best financial profile together with Deutsche Wohnen, Vonovia, Alstria and conwert Immobilien in the German speaking European real estate arena and thus received an IG credit rating (BBB-) by S & P. The AT management strives to further improve the rating towards an A- rating which might be realistic for the next 1 or 2 years. In short-term, we might expect that AT can improve the rating at least by one step from BBB- to BBB.

AT has an undemanding debt maturity profile with no significant bank loan maturities for the next years. Convertibles are already in the money or will surely run in the money much earlier than in

With regards to the debt maturity profile there is no maturity of more than Euro 100m of bank debt for the next four years. The average debt maturity is about 6 years. The convertible series B is in the money and might be called earlier than in 2019, probably in 2017. The convertible series C has also a very good change to come in the money much earlier than 2021.

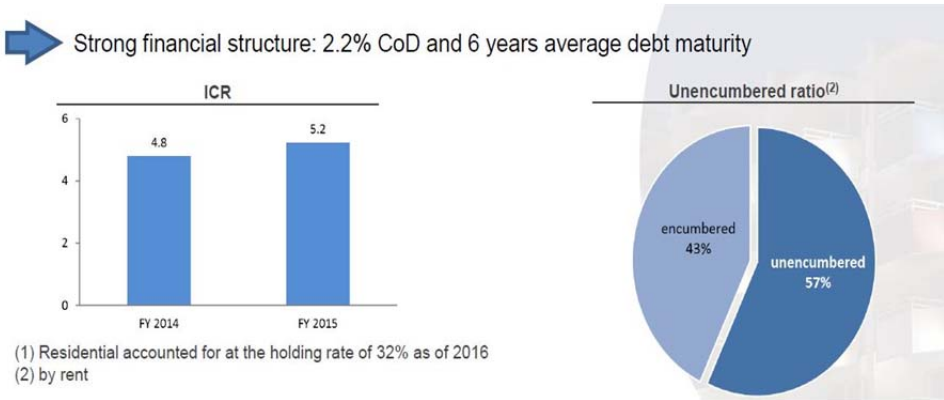


Source: company data

Besides the defensive maturity profile the company has very low Costs of Debt as CoD is only at 2.2% and far more than 50% of the firm's assets are unencumbered. The Interest-coverage-ratio climbed from 4.8x in 2014 to 5.2x in 2015. We expect the ICR ratio (interest coverage ratio / Adjusted EBITDA / Financial expenses) to climb to a range of 5.5x – 5.8x for the current year 2016 and to above 6.5x for the coming year 2017, depending on the pace of company's growth and cash generation and the overall financing situation.

The ratio of net unencumbered assets to net unencumbered indebtedness is clearly above 125%.

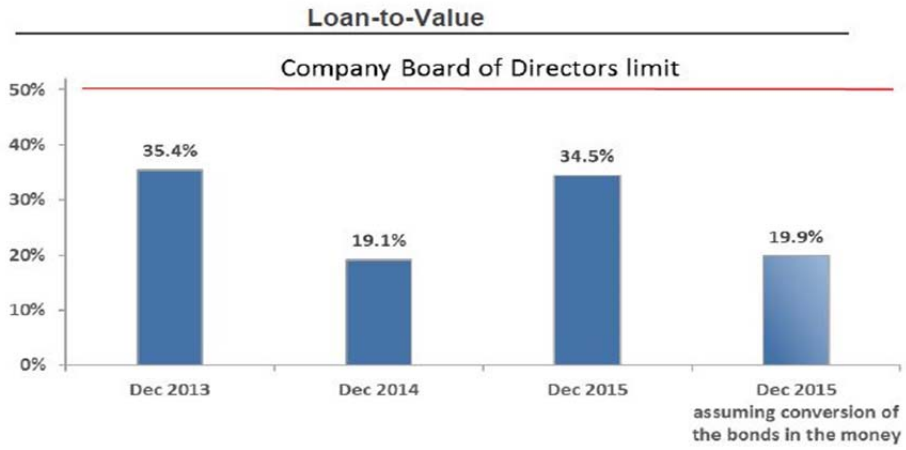
The ICR might climb even to 5.5x – 5.8x for 2016 and to above 6.5x for 2017, in our view.



Source: company data

Revolving credit lines are an additional source for funding as they have no MAC clause.

Besides the unencumbered indebtedness it is worth to mention that AROUNDTOWN has many excellent contacts to financial institutions and in its group of companies several revolving credit facilities worth more than Euro 200m. All revolving credit facilities do not have a "Material Adverse Change" (MAC) clause in their contracts which make them a first class additional source of funding to give even more financial flexibility to the management.
The sound financial picture is completed by the very low loan-to-value ratio. The management has set a limit of 50% but AT was only at 34.5% at year-end 2015. Including the in-the-money convertible the LTV is only at a tiny 20%.

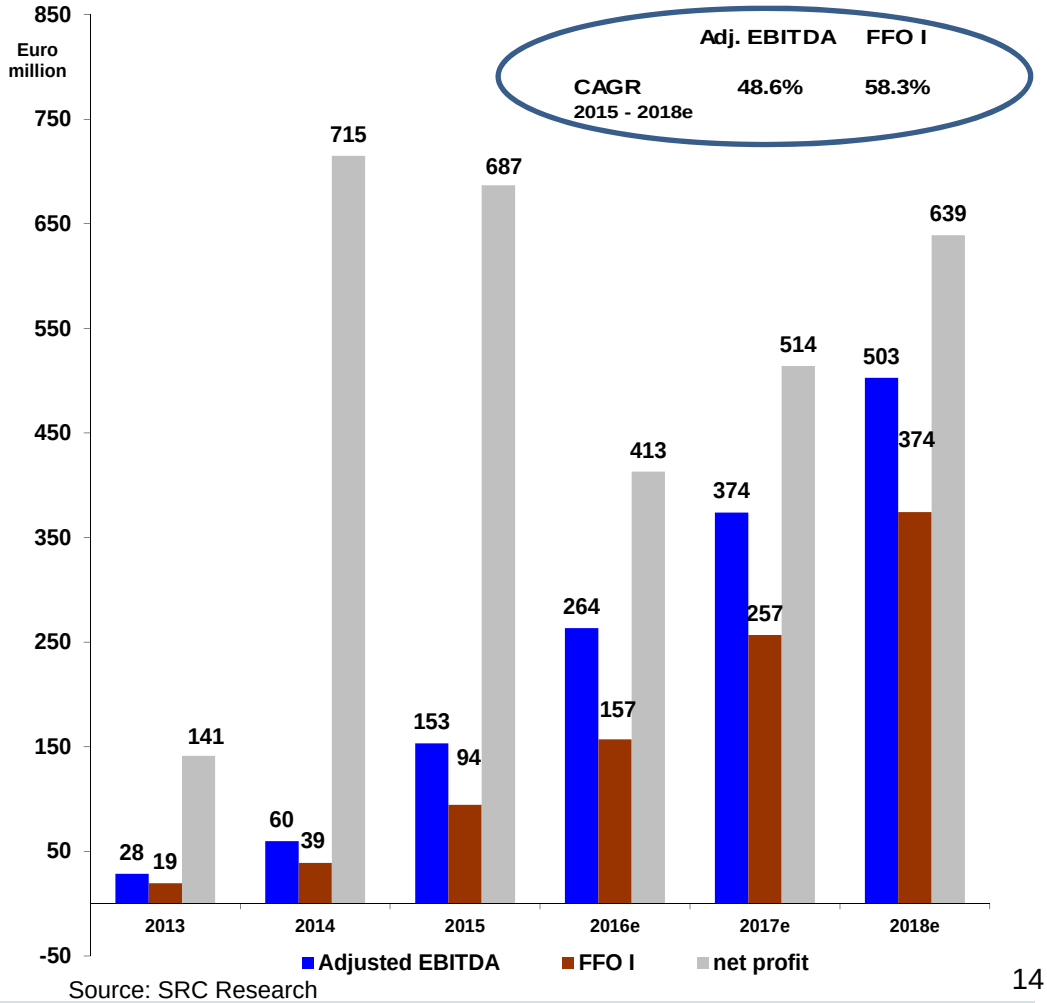


Source: company data

The recent capital hike and the last convertible placement as well as the low LTV and the very healthy balance allow for a quick portfolio expansion of at least Euro 800m to Euro 1.1bn.

Taking into consideration the very low leverage, the fresh money coming from the capital hike last week (Euro 266m) and only the capital inflow from the last series C convertible a short while ago in 4Q 2015 (Euro 300m, only 1.5% p.a. coupon, running until January 2021) AROUNDTOWN has now an additional capacity to buy for at least Euro 800m, probably even Euro 1.1bn without stretching any financial ratios too far. In our cautious base case assumptions AT will lift the property portfolio (incl. equity-accounted investees) by about only Euro 300m to Euro 400m in 2016 and by another Euro 500m to Euro 650m in 2017. All in all, it might be fair to expect the Adjusted EBITDA and FFO cash profits to rise about 50% per year at an average for the next three years.

Development of Adjusted EBITDA and FFO cash profits and net profit



Source: SRC Research

AROUNDTOWN PROPERTY HOLDINGS PLC
31/12 IFRS ('000)

	2013	2014	2015	2016e	2017e	2018e	CAGR '15 - '18e
Revenues	**181,156**	**257,171**	**125,162**	**232,801**	**332,906**	**455,082**	**53.8%**
thereof rental and operating income (gross)	111,000	242,496	125,162	225,817	322,919	441,430	
thereof revenues from sale of buildings (AfS)	70,156	14,675	0	0	0	0	
Capital gains, property revaluations and others	**244,332**	**877,618**	**814,511**	**250,455**	**260,724**	**268,024**	
thereof net revaluation result	183,000	225,724	605,421	167,805	169,470	166,175	
thereof capital gains and bargain purchase	61,332	651,894	209,090	82,650	91,253	101,849	
Share in profit from investment in equity-accounted investees	3,172	936	134,138	140,845	146,479	153,070	
Property-related operating expenses	-44,190	-102,031	-28,152	-51,563	-55,430	-57,647	
Costs of buildings sold	-54,915	-14,425	0	0	0	0	
Administrative and other expenses	-4,971	-7,797	-4,664	-5,484	-5,051	-5,103	
thereof depreciation and amortization	-207	-923	-377	-463	-435	-466	
Operating profit (EBITDA)	**324,791**	**1,012,395**	**1,041,372**	**567,518**	**680,063**	**813,893**	
Operating Profit (EBIT)	**324,584**	**1,011,472**	**1,040,995**	**567,055**	**679,628**	**813,427**	
Financing expenses	-12,817	-26,930	-20,466	-40,835	-44,715	-46,950	
Other financial results	7,524	-32,877	7,869	6,905	5,456	6,450	
Net financial result	**-5,293**	**-59,807**	**-12,597**	**-33,930**	**-39,259**	**-40,500**	
Pre-tax profit (EBT)	**319,291**	**951,665**	**1,028,398**	**533,125**	**640,369**	**772,926**	**-9.1%**
Tax (cash and deferred)	-36,527	-53,211	-107,644	-34,562	-36,541	-39,752	
Net profit before minorities	**282,764**	**898,454**	**920,754**	**498,563**	**603,828**	**733,174**	
Minorities	-141,570	-183,561	-233,862	-85,455	-89,789	-94,125	
Net profit after minorities	**141,194**	**714,893**	**686,892**	**413,108**	**514,039**	**639,049**	
Number of shares (weighted average, without dilution)		**500,000**	**547,049.0**	**650,000.5**	**786,500.6**	**849,420.7**	
Number of shares (weighted average, diluted)		**500,000**	**632,880.0**	**655,000.0**	**845,829.2**	**896,579.0**	
Earnings per share (EPS, basic)		**1.43**	**1.26**	**0.64**	**0.65**	**0.75**	
Earnings per share (EPS, diluted)		**1.41**	**1.01**	**0.60**	**0.57**	**0.64**	
Dividend per share (DPS)	0.00	0.00	0.05	0.07	0.10	0.15	
EBITDA	**324,791**	**1,012,395**	**1,041,372**	**567,518**	**680,063**	**813,893**	**-7.9%**
- Capital Gains, revaluations and other income	-244,332	-877,618	-814,511	-250,455	-260,724	-268,024	
- Net adjustment for Grandcity and others	-52,060	-75,112	-73,572	-53,555	-45,522	-43,246	
Adjusted EBITDA	**28,399**	**59,665**	**153,289**	**263,508**	**373,817**	**502,623**	**48.6%**
ICR (Interest coverage ratio)		**4.8**	**5.2**	**5.6**	**7.0**	**8.7**	
Financing expenses	-12,817	-26,930	-20,466	-40,835	-44,715	-46,950	
Current cash tax expenses	-6,000	-16,760	-9,264	-6,452	-8,388	-10,904	
Adjustments for the holdings rates in GCP and PCI	9,760	22,777	-29,109	-59,251	-63,991	-70,390	
FFO I	**19,342**	**38,752**	**94,450**	**156,970**	**256,724**	**374,379**	**58.3%**
FFO I per share (weighted average, without dilution)		**0.08**	**0.17**	**0.24**	**0.33**	**0.44**	
Shareholders' Equity (without minorities)	**389,760**	**1,113,569**	**2,105,409**	**2,488,517**	**2,960,556**	**3,539,605**	**18.9%**
Shareholders' Equity (including minorities)	**871,664**	**1,221,661**	**2,425,512**	**2,866,772**	**3,326,185**	**3,967,898**	
EPRA NAV	**441,049**	**1,273,270**	**3,042,864**	**3,763,912**	**4,647,253**	**5,695,618**	**23.2%**
Balance Sheet sum	1,882,850	1,721,569	4,440,147	5,159,290	6,034,753.5	7,094,384.0	
Equity Ratio	46.3%	71.0%	54.6%	55.6%	55.1%	55.9%	
RoE (after tax)	24.3%	68.3%	37.7%	15.6%	16.6%	17.5%	**-22.5%**
Property portfolio (including equity-accounted investees)	**1,577,787**	**1,334,738**	**3,613,743**	**4,000,414**	**4,560,471**	**4,969,546**	
Book Value per share (Euro) - undiluted		**2.23**	**3.85**	**3.73**	**4.14**	**4.63**	**6.3%**
NAV per share (Euro) - undiluted		**2.55**	**5.56**	**5.79**	**5.91**	**6.71**	**6.4%**

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Rating chronicle:
As this research report is an initiating coverage there is no rating chronicle available.

Please note:
The share price mentioned in this report is from 20 April 2016. AROUNDTOWN Property Holdings PLC mandated SRC Research for covering the share.