

Aroundtown SA

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

Update

RATING
PRICE TARGET **BUY**
€ 9.80
 Return Potential 33.6%
 Risk Rating Medium

AROUNDTOWN IN TALKS TO JOIN FORCES WITH TLG IMMOBILIEN AG

Aroundtown (AT) announced that commercial rival TLG Immobilien AG (TLG), has bought a 9.99% stake in AT from the company's main shareholder (Avisco Group) for €8.3 per share. This matches end of June EPRA NAV. TLG also entered into an option agreement to purchase a further 4.99% stake at the same price. The two landlords will now kick off talks about a possible merger. The news is hardly shocking, given common strategies and portfolio synergies. The potential size would make the company potentially eligible for DAX inclusion and greatly improve prospects for the coveted A- S&P rating. However, discussions are early stage, and there are a number of hurdles to clear before a deal could be struck. Our rating is Buy with a €9.8 price target.

Merger rationale makes sense; scale AT and TLG rank 1 and 2 among Germany's commercial landlords. A business combination would result in a commercial portfolio of > €20.8bn (> €28bn including Grand City exposure) and create a pan-European commercial real estate powerhouse. A merger would: (1) bolster assets at the sweet spot of the commercial market (office and hotel) and expand the metropolitan footprints—especially Berlin; (2) unlock cost synergies; (3) boost share liquidity; (4) box out rivals from potential market consolidation; (5) unlock greater development potential—the combined pipelines including TLG's project on Berlin's Alexanderplatz would approach €1.9bn; and (6) provide "size matters" effects. The latter would open the door for DAX inclusion—AT is currently an MDAX constituent—and enhance the chances for credit rating upgrades. Management remain highly focused on the coveted A- rating (current: BBB+) from S&P. This could help AT shave some 40bps off the current 1.7% cost of debt.

Key shareholder paving the way for merger talks We have written in the past about the importance of founder and main shareholder Yakir Gabay to AT's success. He has had a strong hand in orchestrating various. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Net rent (€m)	233.38	448.98	633.00	783.38	869.48	925.20
Adj. EBITDA (€m)	268.2	429.3	606.0	741.1	817.1	869.8
Net income (€m)	901.09	1,539.00	1,827.80	1,375.97	1,190.86	1,107.63
EPS (diluted) (€)	0.88	1.35	1.49	1.01	0.83	0.77
EPRA NAV ¹ (€m)	4,349.05	7,656.28	10,290.10	12,500.52	13,455.13	14,279.85
NAVPS ¹ (€m)	5.40	7.63	9.11	10.22	11.00	11.67
DPS (€)	0.16	0.23	0.25	0.27	0.29	0.32
FFO 1 (€m)	165.63	293.00	405.74	490.08	554.44	595.38
FFOPS 1 (€)	0.25	0.36	0.39	0.42	0.45	0.49
Liquid assets (€m)	833.44	841.60	1,599.50	2,162.97	1,503.98	1,333.34

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.

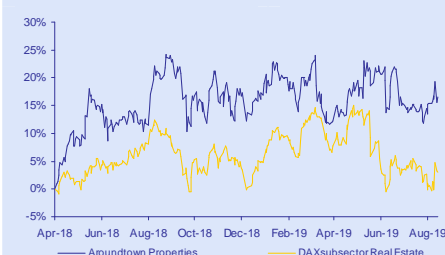
MARKET DATA

As of 04 Sep 2019

Closing Price	€ 7.34
Shares outstanding	1224.00m
Market Capitalisation	€ 8981.71m
52-week Range	€ 7.00 / 7.88
Avg. Volume (12 Months)	3,517,346

Multiples	2018	2019E	2020E
P/FFO 1	19.0	17.6	16.2
P/EPRA NAV	0.8	0.7	0.7
FFO 1 Yield	5.3%	5.7%	6.2%
Div. Yield	3.4%	3.7%	4.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019

Liquid Assets	€ 2,416.00m
Current Assets	€ 2,979.00m
EPRA NAV ¹	€ 11,382.00m
Total Assets	€ 22,667.00m
Current Liabilities	€ 1,007.00m
Total Equity	€ 11453.00m

¹ including perpetual notes

SHAREHOLDERS

Avisco Group	16.9%
TLG Immobilien	9.99%
Blackrock	5.1%
Free Float	68.0%

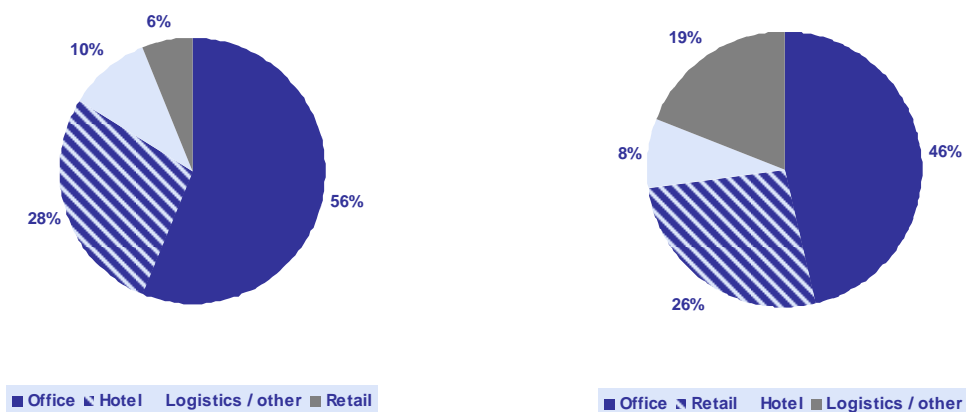


. . .activities with his in-depth expertise and sourcing network—particularly with the capital markets. The company is adamant that Mr Gabay is not exiting the property business by reducing his position but merely paving the way for a major milestone that would solidify the company’s position on the European real estate landscape. The Avisco stake declines to 16.9% from 26.9%, but Mr Gabay remains the largest shareholder.

Good portfolio synergies in terms of type and location Aroundtown exited H1 with some €16.2bn in commercial assets including about €1bn in land for development. The company has been particularly focused on the office and hotel segments. Although AT de-emphasised retail around 18 months ago, TLG has a 19% retail component in its portfolio. However, these shops are scattered across smaller towns and anchored by food and supermarket retailers. This makes them highly impervious to e-commerce cannibalisation.

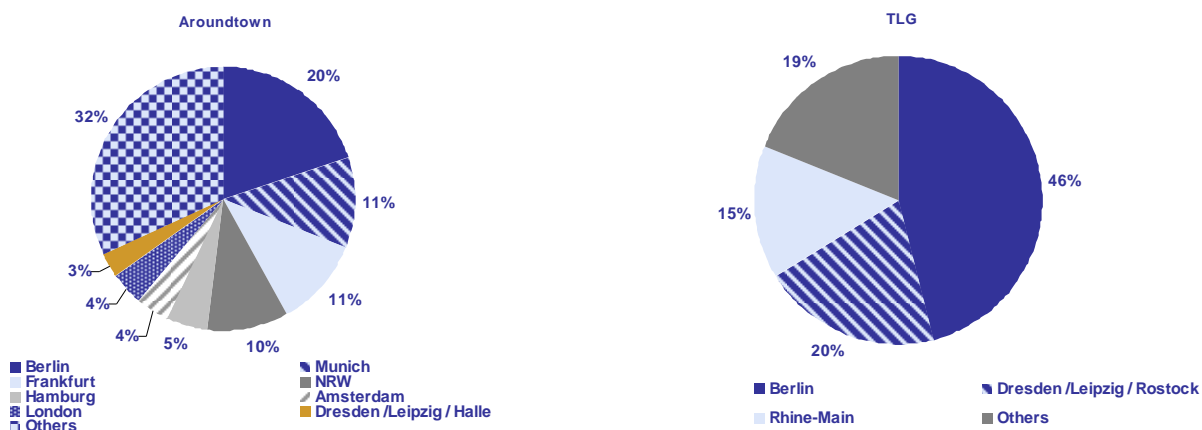
TLG ended the six month period with around €4.2bn in strategic commercial assets (total inc. non-strategic: €4.6bn). AT has a much broader footprint than TLG after making strong international inroads into metropolises such as London, Amsterdam, Rotterdam, Brussels, and Vienna among others. Based on H1 data, the important office segment would top €10bn in terms of GAV (gross asset value) post-merger.

Figure 1: Asset type profile comparison by GAV



Source: First Berlin Equity Research; Aroundtown; TLG

Figure 2: Geographic split comparison by GAV



Source: First Berlin Equity Research; Aroundtown; TLG



Is there a bogeyman lurking in the deal? AT shares traded lower on Monday after opening higher on the news. Investors grew concerned during the course of the day that the deal is an omen that Mr Gabay is exiting the property market. Plus, concerns arose about the price of a potential future offer that could somehow disadvantage the remaining AT shareholders. The 4.99% option does mean that TLG will have free hand to structure a deal independent of the original terms, but this opens the door for a share swap as opposed to a cash offer.

The upshot is that we do not agree that the deal structure is a ploy to give TLG the upper hand in further negotiations. It is our understanding that future negotiations will be NAV-based and that any offer will be subject to >75% shareholder approval. TLG insists the stake is merely to establish a basis for the upcoming talks and remove speculative volatility out of the share price. And TLG intends to seek a seat on the AT board in due course. We appreciate that the reduction of Mr Gabay's AT stake spooked investors, but we regard the fears about a bogeyman in the deal structure as overblown.

VALUATION MODEL

We think AT is worth considerably more than €8.3 per share if it continues its current operational trajectory. We note that the two companies trade at roughly the same multiples: P/FFO multiple (AT: 18x; TLG: 20x) and P/NAV (AT: 0.88x; TLG 0.89x).

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	625	694	740	787	795
(+) Revaluations	985	745	611	532	242
(+) Investment income (GCP)	116	123	130	137	138
(-) Tax expense	56	61	65	69	70
NOPAT	1,670	1,501	1,415	1,386	1,105
Total assets	23,158	24,546	25,868	26,872	26,872
(-) Current liabilities	724	791	837	866	866
(+) Current financial debt	27	27	27	27	27
(-) Cash	1,792	1,133	962	954	954
(+) Deferred taxes	1,033	1,232	1,416	1,596	1,596
Capital employed (CE)	21,703	23,881	25,513	26,674	26,674
Average CE	19,864	22,792	24,697	26,094	26,674
ROCE	8.4%	6.6%	5.7%	5.3%	4.1%
WACC	4.0%	4.0%	4.0%	4.0%	4.0%
ROCE-WACC	4.4%	2.6%	1.8%	1.3%	0.2%
Economic Profit	881	595	434	349	45
NPV	870	565	396	306	1,330
Fair value calculation					
Total return	3,468				
(+) NAV ¹ (2018)	8,742				
(-) Dividend to be paid	264				
Equity value	11,947				
Diluted SO (m)	1,224				
Fair value per share (€)	9.80				



INCOME STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net rent	233	449	633	783	869	925
Operating and other income	40	78	114	142	157	167
Rental and operating income (RI)	274	527	747	925	1,027	1,092
Capital gains, property revaluations & other	720	1,327	1,536	985	745	611
Result from equity-accounted investees	197	228	252	199	162	164
Property OpEx	-75	-147	-219	-270	-300	-319
Administration & other OpEx	-8	-15	-23	-28	-31	-32
Operating income (EBIT)	1,107	1,920	2,294	1,811	1,603	1,517
Net financial result	-47	-70	-115	-147	-147	-153
Other financial expenses	-36	-15	-94	0	0	0
Pre-tax income (EBT)	1,024	1,836	2,085	1,665	1,456	1,364
Tax expense	-20	-34	-44	-56	-62	-66
Deferred tax	-103	-263	-213	-233	-204	-191
Tax result	-123	-297	-257	-289	-266	-257
Comprehensive net income	901	1,539	1,828	1,376	1,191	1,108
Minority interests	169	228	161	138	119	111
Perpetual notes	4	29	46	53	60	60
Net income to owners	728	1,283	1,620	1,186	1,012	937
Basic EPS (€)	1.11	1.56	1.54	1.01	0.83	0.77
Diluted EPS (€)	0.87	1.35	1.49	1.01	0.83	0.77
Adjusted EBITDA commercial	195	339	497	625	694	740
Ratios						
Adj EBITDA commercial margin	83.4%	81.7%	80.9%	79.8%	79.8%	80.0%
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%	23.8%	11.0%	6.4%
Operating income	6.3%	73.5%	19.4%	-21.0%	-11.5%	-5.4%
Adjusted EBITDA	109.8%	74.3%	46.5%	25.8%	11.1%	6.6%
Net income/ loss	6.0%	76.1%	26.3%	-26.8%	-14.6%	-7.4%
Funds from Operations (FFO)						
Adjusted EBITDA commercial portfolio	195	339	497	625	694	740
Finance expense	-47	-70	-115	-147	-147	-153
Tax expense	-20	-34	-44	-56	-62	-66
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	421	480	516
Adjustment for GCP contribution	46	56	67	69	74	79
FFO 1	166	293	406	490	554	595



BALANCE SHEET

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Assets						
Current assets, total	1,100	1,523	2,102	2,716	2,095	1,948
Cash and cash equivalents	641	736	1,243	1,792	1,133	962
Short-term investments	181	99	366	366	366	366
Receivables	111	163	277	342	380	404
Other current assets	11	18	5	5	5	5
Assets held for sale	155	508	211	211	211	211
Non-current assets, total	6,989	12,247	16,939	20,442	22,451	23,920
Property, plant & equipment	23	26	33	34	34	35
Investment properties	5,016	9,804	14,174	17,496	19,379	20,724
Equity accounted investees	1,557	1,906	2,215	2,361	2,465	2,568
Other LT assets	393	512	517	552	573	593
Total assets	8,089	13,770	19,041	23,158	24,546	25,868
Shareholders' equity & debt						
Current liabilities, total	349	566	606	724	791	837
Short-term debt	160	17	27	27	27	27
Accounts payable	108	267	451	564	626	666
Provisions & other current liabilities	81	282	128	133	138	144
Long-term liabilities, total	3,799	5,955	8,491	10,327	10,775	11,305
Long-term debt	3,385	5,078	7,444	9,042	9,281	9,615
Deferred tax liabilities	366	752	882	1,115	1,319	1,510
Other LT liabilities	48	125	164	169	175	180
Minority interests	373	674	567	705	824	935
Shareholders' equity	3,568	6,576	9,377	11,403	12,156	12,792
Total consolidated equity and debt	8,089	13,770	19,041	23,158	24,546	25,868
Ratios						
ICR (x)	5.7	5.4	4.7	4.9	5.4	5.5
Equity ratio	48.7%	52.6%	52.2%	52.3%	52.9%	53.1%
EPRA NAV ¹	3,871	6,483	8,742	10,503	11,457	12,282
EPRA NAVPS ¹ (€)	4.9	6.5	7.7	8.6	9.4	10.0
Net debt	2,737	4,400	5,871	6,906	7,805	8,308
Return on equity (ROE)	25.3%	23.4%	19.5%	12.1%	9.8%	8.7%
Loan-to-value (LTV)	39.3%	35.9%	35.3%	34.3%	35.3%	35.2%
Interest coverage ratio (x)	5.7	5.4	4.7	4.9	5.4	5.5

¹ excludes perpetual notes



CASH FLOW STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net income	901	1,539	1,828	1,376	1,191	1,108
Depreciation & amortisation	2	2	2	2	2	2
Capital gains, property revaluations & other	-720	-1,327	-1,536	-985	-745	-611
Profit share from equity accounted investees	-197	-228	-252	-199	-162	-164
Shared based payment in a subsidiary	2	2	3	0	0	0
Net finance expenses	83	85	208	147	147	153
Tax result	123	297	257	289	266	257
Operating cash flow	195	369	510	629	698	744
Changes in working capital	-17	-13	-39	26	17	10
Provisions for other liabilities	-1	-2	-3	2	2	2
Dividend received	18	41	51	54	57	61
Tax paid	-16	-33	-46	-56	-62	-66
Net operating cash flow	179	362	473	655	712	751
CapEx/ intangibles	-7	-9	-5	-3	-3	-3
Disposal/ investment in investment properties, net	-1,051	-615	-915	-2,337	-1,137	-735
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	-2,344	-1,145	-742
Debt financing, net	1,786	1,165	2,588	1,598	239	333
Equity financing, net	741	1,561	953	1,051	0	0
Dividends paid	-34	-155	-226	-264	-319	-360
Other financing activities	-204	-13	-265	0	0	0
Net paid financing expenses	-45	-66	-97	-147	-147	-153
Cash flow from financing	2,244	2,492	2,953	2,238	-227	-180
Net cash flows	523	100	501	549	-659	-171
Assets held for sale - cash	-2	-5	6	0	0	0
Cash, start of the year	121	641	736	1,243	1,792	1,133
Cash, end of the year	641	736	1,243	1,792	1,133	962
Adjusted EBITDA commercial/share (€)	0.30	0.41	0.47	0.53	0.57	0.60
FFO 1	166	293	406	490	554	595
FFOPS 1 (€)	0.25	0.36	0.39	0.42	0.45	0.49
Y/Y Growth						
EBITDA/share	75.7%	38.6%	14.4%	12.6%	6.8%	6.6%
FFO 1	76.1%	76.9%	38.5%	20.8%	13.1%	7.4%
FFOPS 1 (€)	47.5%	40.7%	8.1%	8.1%	8.7%	7.4%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 August 2019	€7.72	Buy	€9.50
2...26	↓	↓	↓	↓
27	4 July 2019	€7.52	Buy	€9.50
28	25 July 2019	€7.25	Buy	€9.50
29	29 August 2019	€7.40	Buy	€9.80
30	Today	€7.34	Buy	€9.80

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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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

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

SUBJECT TO CHANGE

The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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