

AROWNTOWN

Buy (unchanged) **Target: Euro 9.50** (unchanged)

24 | March | 2020



Der Spezialist für Finanzaktien

■ **Price (Euro)** **4.11**
52 weeks range 8.88 / 2.88

■ **Key Data**

ISIN LU1673108939
Ticker AT1
Bloomberg AT1 GR
Reporting standard IFRS
Market Cap (Euro million) 6,314
Number of shares (million) 1,536.2
Free Float 78.4%
Free Float Market Cap (Euro million) 4,950
CAGR Adj. EBITDA profit ('18-'21e) 24.6%

■ Multiples	2018	2019e	2020e	2021e
Market Cap/ Total revenues	8.5	7.1	5.2	4.5
PE-Ratio	2.7	3.7	6.1	5.2
Dividend Yield	6.1%	6.8%	7.6%	7.9%
Price-to-Book-Ratio	0.55	0.50	0.44	0.43
P/ NAV-ratio	0.53	0.47	0.33	0.33

■ Key Data per share (Euro)	2018	2019e	2020e	2021e
Earnings per share (EPS)	1.54	1.12	0.68	0.79
Dividend per share (DPS)	0.25	0.28	0.31	0.32
Book Value per Share (BVPS)	7.44	8.17	9.45	9.49
EPRA NAV per share	7.70	8.70	12.39	12.45

■ Financial Data (Euro Millions)	2018	2019e	2020e	2021e
Revenues (rental income)	747.1	894.8	1,221.6	1,404.8
Capital gains, Prop. Revaluations	1,536.4	1,217.5	552.3	675.0
EBITDA profit	2,295.1	2,157.5	1,781.1	2,039.8
Adj. EBITDA profit (cash driven)	606.0	772.7	1,041.8	1,172.6
Operating profit (EBIT)	2,293.5	2,155.8	1,785.1	2,044.2
Net financial result	-208.4	-96.0	-233.4	-280.2
Pre-tax profit (EBT)	2,085.1	2,059.8	1,551.7	1,764.0
Taxation	-257.3	-350.7	-232.8	-264.6
Net profit after minorities	1,620.4	1,308.1	898.0	1,105.4
FFO I	405.7	503.4	634.5	695.2
Shareholders' equity (Euro billion)	7.8	9.6	12.5	13.2
Property portfolio (Euro billion)	16.2	21.2	30.5	35.7
RoE (after tax)	18.8%	11.2%	5.8%	6.2%
Equity ratio (incl. equity minorities)	52.2%	52.6%	50.1%	49.5%

■ **Main Shareholders**

TLG 12%
Avisco Group Plc. 9.6%

■ **Financial calendar**

Annual report 2019 26 March 2020
1Q 2020 report 27 May 2020
AGM 24 June 2020

■ **Analysts**

Dipl.-Kfm. Stefan Scharff, CREA
Christopher Mehl, MBA

E-Mail scharff@src-research.de
mehl@src-research.de

Internet www.src-research.de
www.aktienmarkt-international.at
www.aktienmarkt-international.de

2019 prelims in line with estimates and guidance – Corona impact should not be too hard given the solid financial position and portfolio structure –78% control over TLG gained

Last week, on 18 March, the company reported first key data regarding the 2019 fiscal year and also gave some insight into the implications due to the Corona pandemic. The 2019 results were in terms of the key numbers fully in line with our estimates and the firm's guidance. Revenues hiked by 20% from Euro 747m to Euro 895m with a net rental income of Euro 766m compared to Euro 633m last year. The adjusted EBITDA, excluding the revaluation result of more than Euro 1.2bn, came in at Euro 773m, representing a hike of 28%. The FFO climbed by 24%, from Euro 406m to Euro 503m. This translates into a FFO per share of 43 cents, up 10% despite a significantly larger number of shares outstanding. Given the successful 2019 year, a dividend of 28 cents per share will be proposed at the next annual general meeting, which is exactly our estimate and translates into a lucrative dividend yield of almost 7% following the slump of the markets in the last weeks and is also a good sign that the company sees itself as financially well positioned in the current environment, which we evaluate equally given the healthy balance sheet and liquidity position. The equity ratio at year-end 2019 is at 53% and the LTV is at a relatively low level of 34%. **The current cash balance stands at a high level of Euro 2.8bn. Looking at the financial obligations of the coming two years of about Euro 540m, or about Euro 1.6bn including the dividends, these are more than covered by the cash, which will of course also further benefit from the regular income of the company.**

The portfolio amounts to Euro 26bn following the successful takeover of TLG. About 24% of these assets are hotels, which is the asset class that should be hit the hardest by the Corona pandemic situation. However, the real effect on Arowntown's numbers should be very limited as the lease agreements with hotel operators are fixed and have no variable element. Furthermore, more than 80% of the hotels are branded 4 star hotels and no single tenant accounts for more than 5% of rental income. So far only some hotels have closed down, but operators generally have insurances that are expected to cover the losses. The retail portion of the portfolio accounts for 10%, however, the lion's share of these assets are food-related such as super markets like EDEKA and Rewe, which should not suffer from the regulations regarding shop closings.

The merger with TLG was finalized on 19 February and will become visible in the firm's financial reports starting with the 1Q report. The firm now controls 78% of TLG. We already included the TLG business in our 2020 estimates and expect a significant hike in numbers, driven both from the integration of the TLG operations, but also from a further portfolio extension in 2020 as well as the full effects of the 2019 acquisitions and portfolio improvements. This leads to a clear uplift in our valuation to initially between Euro 12 and Euro 13. Due to the current environment we keep a more cautious view on the business for the moment and decided to keep our target price at the previous level of Euro 9.50 until the pandemic situation improves and we have a clearer view on the effects on the overall economy and the business of Arowntown. The share price was cut half since our last update, which results in an upside of more than 100%. We clearly confirm our Buy recommendation.

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	Simone Runge-Brandner Indep. Director	Ran Laufer Non-Exec. Director	

ADVISORY BOARD

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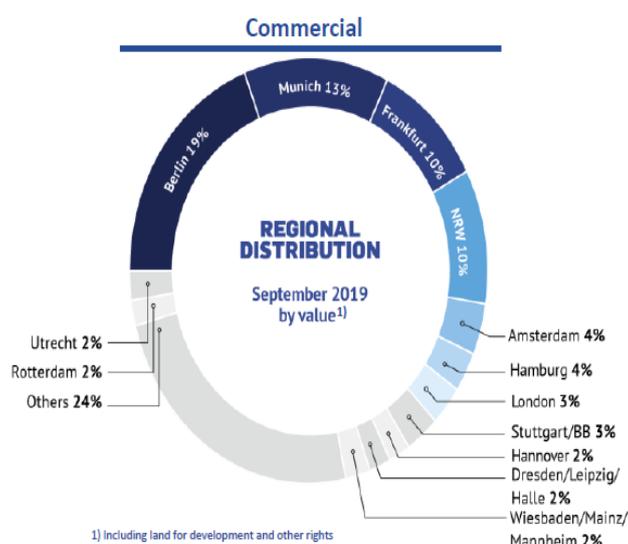
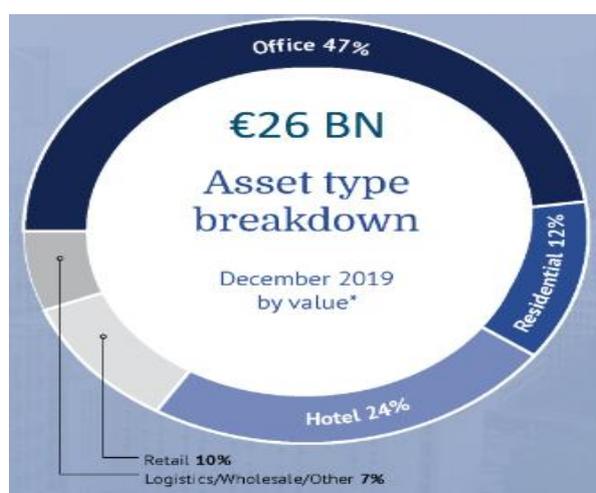
Founded in 2004, AROUNDTOWN SA ("AT1") is a real estate investment company specializing in identifying and investing in value-add and income generating properties. Aroundtown SA is listed in the German Prime Standard since June 2017 and member of German MDax index since 19 March 2018.

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 9M 2019. Grand City is a German MDax member since 18 Sept. 2017. Including the new assets coming from the takeover of TLG, which was completed in February 2020, the firm's total portfolio has grown significantly and currently amounts to Euro 26bn. Commercial properties have a share of 88% relatively to the total portfolio of investment properties based on appraisal values and logically residential properties cover the remaining share of 12%. The commercial part of the portfolio consists to 47% of office properties followed by hotel and retail. Hotel properties currently have a portfolio share of about 24%. The geographical allocation of the commercial portfolio by value as of September 2019 is illustrated in the graph below, an updated version including the TLG properties should come soon.

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. We believe a rating upgrade could happen soon.

Aroundtown was recently added to the newly launched DAX ESG Index and ranked as the highest ESG ranked real estate constituent of the index. Following the finalization of the merger with TLG Immobilien in mid February, we believe an uplisting to the German DAX is within reach.



Source: Company Data, SRC Research

AROUNDTOWN SA 31/12 IFRS (Euro Millions)	2016	2017	2018	2019e	2020e	2021e	CAGR '18 - '21e
Revenues	273.7	527.1	747.1	894.8	1,221.6	1,404.8	23.4%
Capital gains, property revaluations and others	719.5	1,326.6	1,536.4	1,217.5	552.3	675.0	
thereof net revaluation result	654.8	1,315.2	1,459.6	1,156.6	524.7	641.3	
thereof capital gains and bargain purchase	64.7	11.4	76.8	60.9	27.6	33.8	
Share in profit from investment in equity-accounted investees	197.1	228.4	251.6	298.7	316.6	335.6	
Property-related operating expenses	-75.4	-147.1	-219.1	-227.9	-256.5	-323.1	
Administrative and other expenses	-7.9	-14.7	-22.5	-27.3	-48.9	-49.2	
thereof depreciation and amortization	-2.0	-2.0	-1.6	-1.8	4.0	4.4	
Operating profit (EBITDA)	1,109.0	1,922.3	2,295.1	2,157.5	1,781.1	2,039.8	
Operating Profit (EBIT)	1,107.0	1,920.3	2,293.5	2,155.8	1,785.1	2,044.2	
Finance expenses	-47.4	-69.7	-114.6	-141.7	-221.3	-254.5	
Other financial results	-35.9	-15.0	-93.8	45.7	-12.1	-25.7	
Net financial result	-83.3	-84.7	-208.4	-96.0	-233.4	-280.2	
Pre-tax profit (EBT)	1,023.7	1,835.6	2,085.1	2,059.8	1,551.7	1,764.0	-5.4%
Tax (cash and deferred)	-122.6	-296.6	-257.3	-350.7	-232.8	-264.6	
Net profit before minorities	901.1	1,539.0	1,827.8	1,709.1	1,319.0	1,499.4	
Minorities	-172.9	-256.4	-207.4	-401.0	-421.0	-394.0	
Net profit after minorities	728.2	1,282.6	1,620.4	1,308.1	898.0	1,105.4	
Number of shares (weighted average, without dilution)	653.2	821.5	1,052.6	1,172.9	1,326.3	1,392.6	
Number of shares (weighted average, diluted)	829.5	925.0	1,082.8	1,174.0	1,328.5	1,394.9	
Earnings per share (EPS, basic)	1.11	1.56	1.54	1.12	0.68	0.79	
Earnings per share (EPS, diluted)	0.87	1.35	1.49	1.11	0.66	0.77	
Dividend per share (DPS)	0.16	0.23	0.25	0.28	0.31	0.32	
EBITDA	1,109.0	1,922.3	2,295.1	2,157.5	1,781.1	2,039.8	-3.9%
- Capital Gains, revaluations and other income	-719.5	-1,326.6	-1,536.4	-1,217.5	-552.3	-675.0	
- Net adjustment	-123.4	-138.1	-142.3	-167.0	-170.3	-173.7	
- Other adjustments	2.1	-28.3	-10.4	-0.3	-16.7	-18.4	
Adjusted EBITDA	268.2	429.3	606.0	772.7	1,041.8	1,172.6	24.6%
AT's finance expenses	-47.4	-69.7	-114.6	-141.7	-221.3	-254.5	
Adjustments of finance expenses	-11.8	-10.3	-17.6	-20.4	10.4	15.6	
Adjusted Finance Expenses	-59.2	-80.0	-132.2	-162.1	-210.9	-238.9	
ICR (Interest coverage ratio)	4.5	5.4	4.7	4.8	4.9	4.9	
Financing expenses	-47.4	-69.7	-114.6	-141.7	-221.3	-254.5	
Current cash tax expenses	-19.9	-27.5	-44.4	-70.6	-91.8	-119.3	
Adjustments for the holdings rates	-35.3	-33.1	-41.3	-57.0	-94.2	-103.6	
FFO I	165.6	299.0	405.7	503.4	634.5	695.2	19.7%
FFO I per share (weighted average, without dilution)	0.25	0.36	0.39	0.43	0.48	0.50	
Shareholders' Equity (without minorities)	3,090.2	5,402.3	7,829.5	9,585.5	12,528.8	13,221.7	19.1%
Shareholders' Equity (including minorities)	3,941.1	7,249.9	9,944.3	13,378.9	17,452.0	18,380.4	
Growth Shareholders' Equity (without minorities)	47%	75%	45%	22%	31%	6%	
EPRA NAV	3,870.8	6,483.0	8,742.4	10,633.4	16,434.4	17,343.4	25.7%
Balance Sheet sum	8,089.0	13,770.4	19,040.8	25,444.7	34,820.1	37,131.2	
Equity Ratio	48.7%	52.6%	52.2%	52.6%	50.1%	49.5%	
RoE (after tax)	22.9%	22.9%	18.8%	11.2%	5.8%	6.2%	-31.1%
Property portfolio (including equity-accounted investees)	7,306.6	12,231.5	16,221.9	21,213.3	30,547.7	35,740.8	
Book Value per share (Euro) - undiluted	4.73	6.58	7.44	8.17	9.45	9.49	8.5%
NAV per share (Euro) - undiluted	4.90	6.50	7.70	8.70	12.39	12.45	17.4%

SRC Research

- Der Spezialist für Finanz- und Immobilienaktien -

SRC - Scharff Research und Consulting GmbH

Klingerstr. 23

D-60313 Frankfurt am Main

Germany

Fon: +49 (0)69/ 400 313-80

Mail: scharff@src-research.de

Internet: www.src-research.de

Rating chronicle:

Company	Date	Rating	former share price	former target
Aroundtown	January 24, 2020	Buy	8.21 €	9.50 €
Aroundtown	November 27, 2019	Buy	7.65 €	9.50 €
Aroundtown	November 19, 2019	Buy	7.68 €	9.50 €
Aroundtown	October 28, 2019	Buy	7.41 €	9.50 €
Aroundtown	August 28, 2019	Buy	7.47 €	9.00 €
Aroundtown	May 29, 2019	Buy	7.38 €	8.70 €
Aroundtown	April 1, 2019	Buy	7.35 €	8.70 €

Please note:

The share price mentioned in this report is from 23 March 2020. AROUNDTOWN SA mandated SRC Research for covering the share.

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