

# AROUNDTOWN

**Buy** (unchanged) **Target: Euro 9.50** (old: Euro 9.00)

28 | October | 2019



**Price (Euro)** **7.41**  
52 weeks range 7.95 / 6.85

## Key Data

ISIN LU1673108939  
Ticker AT1  
Bloomberg AT1 GR  
Reporting standard IFRS  
Market Cap (Euro million) 9,067  
Number of shares (million) 1,223.6  
Free Float 73.1%  
Free Float Market Cap (Euro million) 6,628  
CAGR Adj. EBITDA profit ('18-'21e) 16.9%

Multiples	2018	2019e	2020e	2021e
Market Cap/ Total revenues	12.1	10.5	9.1	7.9
PE-Ratio	4.8	5.0	5.2	5.1
Dividend Yield	3.4%	3.7%	3.9%	4.3%
Price-to-Book-Ratio	1.00	0.94	0.85	0.78
P/ NAV-ratio	0.96	0.84	0.76	0.70

Key Data per share (Euro)	2018	2019e	2020e	2021e
Earnings per share (EPS)	1.54	1.49	1.43	1.45
Dividend per share (DPS)	0.25	0.27	0.29	0.32
Book Value per Share (BVPS)	7.44	7.88	8.68	9.44
EPRA NAV per share	7.70	8.80	9.69	10.54

Financial Data (Euro Millions)	2018	2019e	2020e	2021e
Revenues (rental income)	747.1	866.6	996.6	1,146.1
Capital gains, Prop. Revaluations	1,536.4	1,387.5	1,426.4	1,466.3
EBITDA profit	2,295.1	2,389.0	2,545.6	2,716.1
Adj. EBITDA profit (cash driven)	606.0	740.1	844.5	968.2
Operating profit (EBIT)	2,293.5	2,387.2	2,543.6	2,714.1
Net financial result	-208.4	-106.6	-182.7	-204.5
Pre-tax profit (EBT)	2,085.1	2,280.6	2,360.9	2,509.6
Taxation	-257.3	-305.9	-354.1	-376.4
Net profit after minorities	1,620.4	1,760.0	1,781.4	1,896.3
FFO I	405.7	495.6	559.3	634.3
Shareholders' equity (Euro billion)	7.8	9.3	10.8	12.3
Property portfolio (Euro billion)	16.2	22.0	25.7	30.1
RoE (after tax)	18.8%	15.7%	13.2%	12.2%
Equity ratio (incl. equity minorities)	52.2%	50.7%	49.3%	48.0%

## Main Shareholders

TLG 15%  
Avisco Group Plc. 12%

## Financial calendar

9M 2019 report 27 November 2019

## Analysts

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**Aroundtown agrees with TLG to drive the merger with a voluntary public offer for all TLG shares against a consideration to issue new AT shares – this deal allows to be Top 3 in Europe and brings AT much nearer to a DAX listing – Buy recommendation affirmed – target price up to 9.50 Euros**

Yesterday, the company announced that there was a positive and constructive result in the merger talks on 26 October with TLG that will lead to a voluntary public offer for all TLG shares by Aroundtown, by the issue of new AT shares. For the newly issued shares AT already has enough authorized share capital. **This roadmap to merge the companies putting AT in the driver seat is the most logical and efficient way for a business combination of these two commercial property players to create a new merged Top 3 property player in Europe after Unibail and Vonovia and with Euro 28bn even the Number 1 commercial property player in Europe (Euro 22.7bn assets from AT and Euro 5.4bn assets from the TLG side).**

Aroundtown plans and expects to formally launch an offer for the TLG shareholders until the end of the year with an exchange ratio to be determined by the companies EPRA NAVs and statutory to legal minimum price rules. Until year-end AT and TLG will continue their talks to enter into a Business Combination Agreement (BCA) to clear more in detail the strategy, structure and the synergies potential of a common firm and the transformation process to form an integrated company.

The companies already agreed on a management board of 5 people where the CEO comes from AT and the CFO from TLG. There are three more positions CIO, COO and CDO which have to be filled. If AT manages to get over 66% of TLG shares, one of these three positions will also come from the TLG side.

**Size matters and the sheer size in terms of assets, market cap and liquidity clearly helps to bring the currently MDax listed Aroundtown into the Dax Top Blue Chip League probably within the next 12 to 18 months. But there are also significant operational, financing and development synergies to mention.**

- 1) Operation means the common use of a scalable platform, systems and joint functions as well cost reduction on the overhead level.
- 2) Financing synergies as AT has already a BBB+ credit rating and is now with a further diversification on the way to A- which helps to attract new investors and brings down financing costs.
- 3) TLG has some very lucrative development assets and with AT's management Know How there is a very good chance to fully exploit the potential and possible profits in a shorter period of time.

**Summing up, the first details regarding this business combination make sense in our view and are a good basis to create a new European champion which brings value add to the AT and TLG shareholders. For this reason, we clearly affirm our Buy rating for Aroundtown and now lift our target price to Euro 9.50.**

### Aroundtown SA

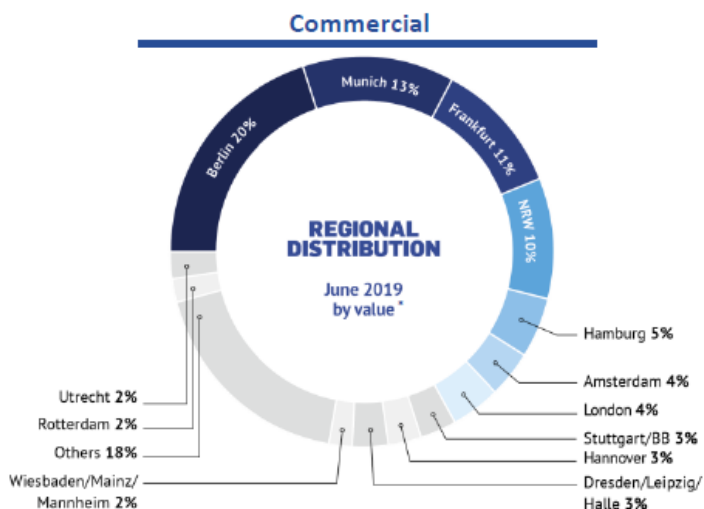
<p><b>Industry:</b> Real Estate <b>Sub-segments:</b> Commercial (incl. Hotel)/ Residential</p> <p><b>Target Countries:</b> Germany <b>Registered:</b> Luxembourg <b>German Office:</b> Berlin <b>Foundation:</b> 2004 <b>Employees:</b> 374 <b>IR Contact:</b> Timothy Wright <b>Email:</b> info@aroundtownholdings.com</p> <p><b>Credit Rating:</b> BBB+ by S&amp;P (Investment Grade)</p> <p><b>Stock exchange:</b> Prime Standard Frankfurt</p> <p><b>ISIN:</b> LU1673108939 <b>Bloomberg:</b> AT1 GR</p>	<p style="text-align: center;"><b>MANAGEMENT</b></p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">   <b>Shmuel Mayo</b>  <b>CEO</b> </div> <div style="text-align: center;">   <b>Andrew Wallis</b>  <b>Deputy CEO</b> </div> <div style="text-align: center;">   <b>Eyal Ben David</b>  <b>CFO</b> </div> </div> <table border="1" style="width: 100%; text-align: center; border-collapse: collapse; margin-top: 10px;"> <tr> <td style="padding: 2px;">Jelena Afxentiou Director</td> <td style="padding: 2px;">Oschrie Massatschi Director</td> <td style="padding: 2px;">Frank Roseen Director</td> <td style="padding: 2px;">Markus Kreuter Indep. Director</td> </tr> <tr> <td colspan="4" style="padding: 2px; text-align: center;">Markus Leininger Indep. Director</td> </tr> </table>	Jelena Afxentiou Director	Oschrie Massatschi Director	Frank Roseen Director	Markus Kreuter Indep. Director	Markus Leininger Indep. Director				<p style="text-align: center;"><b>ADVISORY BOARD</b></p> <div style="text-align: center;">   <b>Dr. Gerhard Cromme</b>  <b>Chairman</b> </div> <div style="text-align: center; margin-top: 10px;">   <b>Yakir Gabay</b> </div> <div style="text-align: center; margin-top: 10px;">   <b>Claudio Jarczyk</b> </div> <div style="text-align: center; margin-top: 10px;">   <b>David Maimon</b> </div>
Jelena Afxentiou Director	Oschrie Massatschi Director	Frank Roseen Director	Markus Kreuter Indep. Director							
Markus Leininger Indep. Director										

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 1H 2019. Grand City is a German MDax member since 18 Sept. 2017. Commercial properties have a share of 85% relatively to the total portfolio of investment properties based on appraisal values and logically residential properties cover the remaining share of 16%. 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 56% 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 perspective tenants.



Source: Company Data, SRC Research

## STRONG SYNERGIES IDENTIFIED ACROSS THE ENTIRE VALUE CHAIN

### Operational synergies



- Operational synergies through higher profitability from utilization of scalable platform, systems, low cost structure and economies of scale
- Synergies through cost reduction on overhead level through centralization, joint functions and lower corporate fees
- IT synergies expected to generate further cost synergies, combining the best of two complementary systems
- Best-in-class management expertise to unlock the high value-add potential embedded in the combined group**

### Financing / credit rating synergies



- Stronger financial profile through exposure to a larger and more diversified portfolio will accelerate goal of reaching A- rating, with resulting improved financing terms and consistent access to longer maturities
- Reaching A category rating will open for the combined company new capital markets and investors, introducing a much larger international investor base and significantly higher demand coupled with less supply
- Significant long-term refinancing synergies expected across combined debt balance of both companies**

### Development synergies



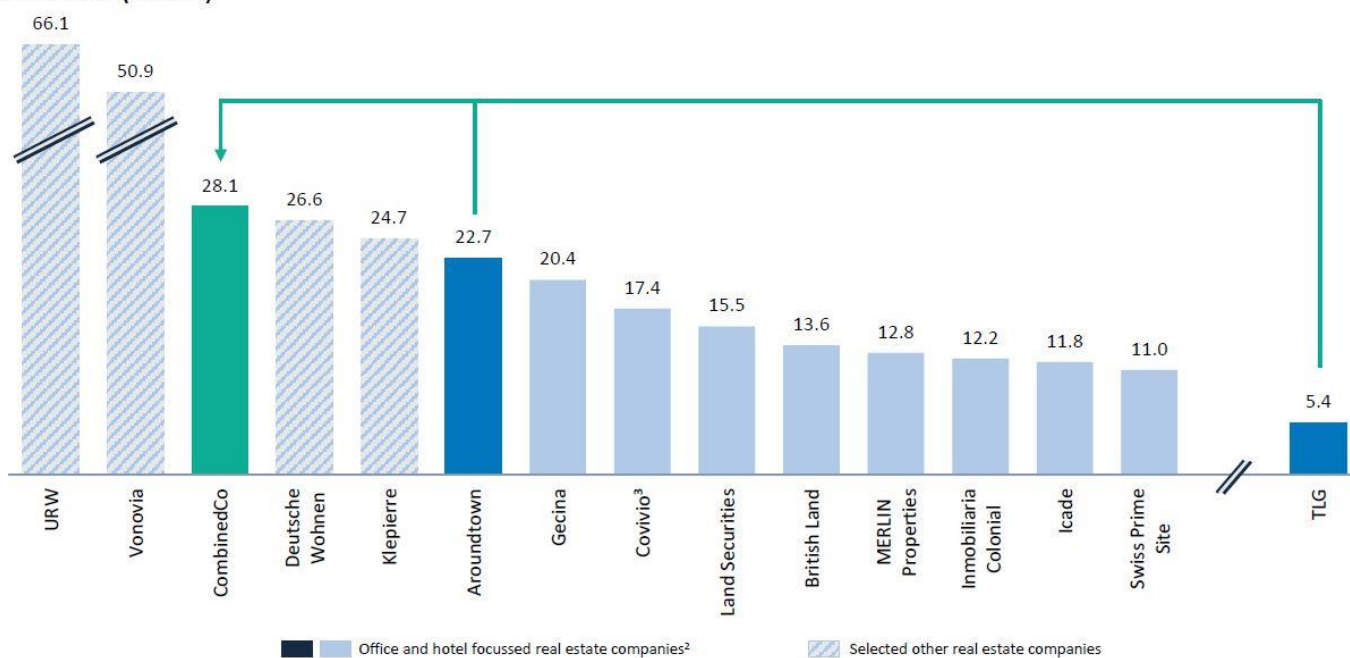
- Aroundtown management's know-how and track record in development of value add properties will contribute to extracting the full potential in TLG's existing development portfolio, which are expected to reduce the development period and bring forward cash flows
- Furthermore, Aroundtown believes that there is further value-add potential within TLG's portfolio which will provide additional long-term value creation
- Acceleration of pipeline and enhancement of future potential to provide further cash flow and NAV growth**

Synergies to fuel and accelerate organic growth and creating operational profitability as well as increasing the value creation upside. The transaction is expected to be FFO and NAV accretive to the shareholders of both companies

Source: Aroundtown, TLG merger presentation, October 2019

## COMBINED COMPANY WOULD BE TOP3 LARGEST EUROPEAN REAL ESTATE PLAYER AND THE #1 OFFICE FOCUSED REAL ESTATE PLAYER IN EUROPE

Total assets<sup>1</sup> (EUR bn)



Source: Aroundtown, TLG merger presentation, October 2019

AROUNDTOWN SA 31/12 IFRS (Euro Millions)	2016	2017	2018	2019e	2020e	2021e	CAGR '18 - '21e
<b>Revenues</b>	<b>273.7</b>	<b>527.1</b>	<b>747.1</b>	<b>866.6</b>	<b>996.6</b>	<b>1,146.1</b>	<b>15.3%</b>
<b>Capital gains, property revaluations and others</b>	<b>719.5</b>	<b>1,326.6</b>	<b>1,536.4</b>	<b>1,387.5</b>	<b>1,426.4</b>	<b>1,466.3</b>	
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	398.7	422.6	448.0	
Property-related operating expenses	-75.4	-147.1	-219.1	-238.3	-274.1	-315.2	
Administrative and other expenses	-7.9	-14.7	-22.5	-27.3	-27.9	-32.1	
thereof depreciation and amortization	-2.0	-2.0	-1.6	-1.8	-2.0	-2.0	
<b>Operating profit (EBITDA)</b>	<b>1,109.0</b>	<b>1,922.3</b>	<b>2,295.1</b>	<b>2,389.0</b>	<b>2,545.6</b>	<b>2,716.1</b>	
<b>Operating Profit (EBIT)</b>	<b>1,107.0</b>	<b>1,920.3</b>	<b>2,293.5</b>	<b>2,387.2</b>	<b>2,543.6</b>	<b>2,714.1</b>	
Finance expenses	-47.4	-69.7	-114.6	-135.2	-155.5	-178.8	
Other financial results	-35.9	-15.0	-93.8	28.6	-27.2	-25.7	
<b>Net financial result</b>	<b>-83.3</b>	<b>-84.7</b>	<b>-208.4</b>	<b>-106.6</b>	<b>-182.7</b>	<b>-204.5</b>	
<b>Pre-tax profit (EBT)</b>	<b>1,023.7</b>	<b>1,835.6</b>	<b>2,085.1</b>	<b>2,280.6</b>	<b>2,360.9</b>	<b>2,509.6</b>	<b>6.4%</b>
Tax (cash and deferred)	-122.6	-296.6	-257.3	-305.9	-354.1	-376.4	
<b>Net profit before minorities</b>	<b>901.1</b>	<b>1,539.0</b>	<b>1,827.8</b>	<b>1,974.7</b>	<b>2,006.8</b>	<b>2,133.1</b>	
Minorities	-172.9	-256.4	-207.4	-214.7	-225.4	-236.8	
<b>Net profit after minorities</b>	<b>728.2</b>	<b>1,282.6</b>	<b>1,620.4</b>	<b>1,760.0</b>	<b>1,781.4</b>	<b>1,896.3</b>	
<b>Number of shares</b> (weighted average, without dilution)	<b>653.2</b>	<b>821.5</b>	<b>1,052.6</b>	<b>1,183.2</b>	<b>1,242.4</b>	<b>1,304.5</b>	
<b>Number of shares</b> (weighted average, diluted)	<b>829.5</b>	<b>925.0</b>	<b>1,082.8</b>	<b>1,267.2</b>	<b>1,330.6</b>	<b>1,397.1</b>	
<b>Earnings per share (EPS, basic)</b>	<b>1.11</b>	<b>1.56</b>	<b>1.54</b>	<b>1.49</b>	<b>1.43</b>	<b>1.45</b>	
<b>Earnings per share (EPS, diluted)</b>	<b>0.87</b>	<b>1.35</b>	<b>1.49</b>	<b>1.37</b>	<b>1.32</b>	<b>1.34</b>	
<b>Dividend per share (DPS)</b>	<b>0.16</b>	<b>0.23</b>	<b>0.25</b>	<b>0.27</b>	<b>0.29</b>	<b>0.32</b>	
<b>EBITDA</b>	<b>1,109.0</b>	<b>1,922.3</b>	<b>2,295.1</b>	<b>2,389.0</b>	<b>2,545.6</b>	<b>2,716.1</b>	<b>5.8%</b>
- 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	-253.0	-258.1	-263.2	
- Other adjustments	2.1	-28.3	-10.4	-8.4	-16.7	-18.4	
<b>Adjusted EBITDA</b>	<b>268.2</b>	<b>429.3</b>	<b>606.0</b>	<b>740.1</b>	<b>844.5</b>	<b>968.2</b>	<b>16.9%</b>
AT's finance expenses	-47.4	-69.7	-114.6	-135.2	-155.5	-178.8	
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	-155.6	-179.4	-205.2	
<b>ICR (Interest coverage ratio)</b>	<b>4.5</b>	<b>5.4</b>	<b>4.7</b>	<b>4.8</b>	<b>4.7</b>	<b>4.7</b>	
Financing expenses	-47.4	-69.7	-114.6	-135.2	-155.5	-178.8	
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	-61.7	-67.9	-74.7	
<b>FFO I</b>	<b>165.6</b>	<b>299.0</b>	<b>405.7</b>	<b>495.6</b>	<b>559.3</b>	<b>634.3</b>	<b>16.1%</b>
<b>FFO I per share</b> (weighted average, without dilution)	<b>0.25</b>	<b>0.36</b>	<b>0.39</b>	<b>0.42</b>	<b>0.45</b>	<b>0.49</b>	
<b>Shareholders' Equity (without minorities)</b>	<b>3,090.2</b>	<b>5,402.3</b>	<b>7,829.5</b>	<b>9,325.8</b>	<b>10,785.0</b>	<b>12,317.9</b>	<b>16.3%</b>
<b>Shareholders' Equity (including minorities)</b>	<b>3,941.1</b>	<b>7,249.9</b>	<b>9,944.3</b>	<b>12,547.0</b>	<b>14,481.3</b>	<b>16,506.3</b>	
<b>Growth Shareholders' Equity (without minorities)</b>	<b>47%</b>	<b>75%</b>	<b>45%</b>	<b>19%</b>	<b>16%</b>	<b>14%</b>	
<b>EPRA NAV</b>	<b>3,870.8</b>	<b>6,483.0</b>	<b>8,742.4</b>	<b>10,413.1</b>	<b>12,042.5</b>	<b>13,754.1</b>	<b>16.3%</b>
Balance Sheet sum	8,089.0	13,770.4	19,040.8	24,752.1	29,399.8	34,413.9	
<b>Equity Ratio</b>	<b>48.7%</b>	<b>52.6%</b>	<b>52.2%</b>	<b>50.7%</b>	<b>49.3%</b>	<b>48.0%</b>	
<b>RoE (after tax)</b>	<b>22.9%</b>	<b>22.9%</b>	<b>18.8%</b>	<b>15.7%</b>	<b>13.2%</b>	<b>12.2%</b>	<b>-13.4%</b>
<b>Property portfolio (including equity-accounted investees)</b>	<b>7,306.6</b>	<b>12,231.5</b>	<b>16,221.9</b>	<b>21,987.3</b>	<b>25,725.1</b>	<b>30,098.4</b>	
<b>Book Value per share (Euro) - undiluted</b>	<b>4.73</b>	<b>6.58</b>	<b>7.44</b>	<b>7.88</b>	<b>8.68</b>	<b>9.44</b>	<b>8.3%</b>
<b>NAV per share (Euro) - undiluted</b>	<b>4.90</b>	<b>6.50</b>	<b>7.70</b>	<b>8.80</b>	<b>9.69</b>	<b>10.54</b>	<b>11.0%</b>

## SRC Research

### - Der Spezialist für Finanz- und Immobilienaktien -

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### Rating chronicle:

Company	Date	Rating	former share price	former target
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 €
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 €

### Please note:

The share price mentioned in this report is from 25 October 2019. AROUNDTOWN SA mandated SRC Research for covering the share.

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