FIIG | Factsheet

Aroundtown SA

3 March 2023

Sector: Real Estate
Sub-sector: REIT
Country: Germany
Ownership: Public

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Issuer Outline

Aroundtown SA (Aroundtown) is the largest listed real estate company in Germany, with properties located primarily in Germany (77%, based on total property value), the UK (9%) and the Netherlands (8%). Similar to Australian listed real estate investment trusts, Aroundtown's core earnings are generated by rental income from its property portfolio, noting the company will also develop new properties.

Aroundtown is a well-diversified real estate company, with exposure to the residential, office, hotel, retail and logistics sectors. As at 30 September 2022, the company's total portfolio was valued at EUR29.25bn.

Aroundtown is listed on the Frankfurt Stock Exchange, with a market capitalisation of EUR3.78bn (as at 28 February 2023).

Key Financials (EURm)

LTM (30 Sep)	2022
Revenue	1,675.2
EBITDA	1,049.5
Net Interest Expense	191.1
Total Assets	38,717.4
Cash	2,003.0
Total Debt	14,776.2
Net Debt / Adj. EBITDA	11.9x
Adj. EBITDA / Net Interest	5.5x
Debt / Total tangible assets (%)	43.8

Source: S&P Capital IQ, Company, FIIG Estimates

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call[1]	Maturity Date
AU3CB0252955	AUD 250m	Senior Unsecured	4.50%	Semi-Annual	N/A	14 May 2025

[1]*Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call.*

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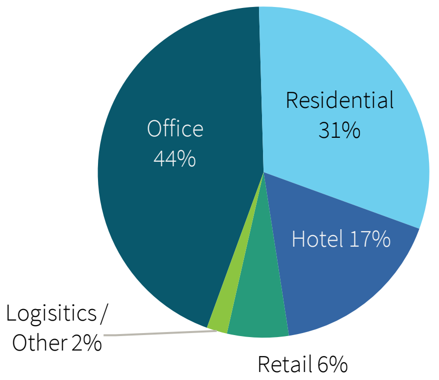
Strengths

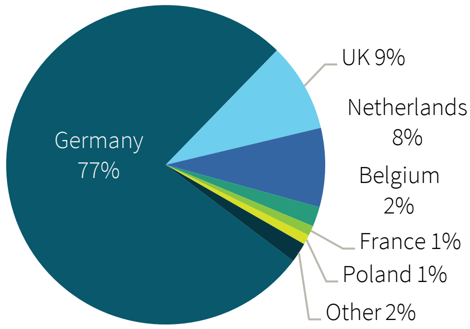
- **Large, diversified property portfolio:** As at 30 September 2022, Aroundtown holds a large diversified portfolio of properties valued at EUR29.25bn across more than 500 commercial assets, 152 hotels and 65,000 residential units. Although concentrated in Germany, the overall portfolio exhibits good geographical diversity with presence in Germany's largest cities (Berlin, Munich, Frankfurt, Hamburg) and the company has expanded in recent years in the UK and the Netherlands, which now represent about 18% (mainly in London and Amsterdam).
- **Exposure to multiple sectors:** Unlike some Australian REITs, Aroundtown's property portfolio is relatively well diversified, with exposure not only to the typical REIT sectors (office, commercial, retail) but also residential (representing about 31%). Additionally, property ownership is lower in Germany (recent home ownership rate of about 50%, compared to about 67% in Australia) with more people favouring renting over owning. The company also has exposure to the hotel and logistics segments.

Figure 1: Portfolio by sector exposure (30 Sep 2022)



Source: Company

Figure 2: Portfolio by geographical exposure (30 Sep 2022)



Source; Company

- **Tenant diversity:** One of Aroundtown's key strengths is the diversity of its tenants. Excluding its residential segment, Aroundtown has exposure to about 3,500 commercial tenants from a wide range of industries, with the Top 10 tenants representing less than 20% of rental income. The Top 2 tenants are Group Pierre & Vacances Center Parcs and Siemens, generating 6% and 3% respectively of total rental income. Government departments (local, state and federal) and large multinational represent 30% and 45% respectively of the office rental income.
- **Solid lease structure:** Aroundtown's weighted average lease term is currently 7.4 years, boosted by its long-term lease structure in its hotel segment (14.8 years), noting no segment has a weighted average lease term of less than 4.3 years. 32% of the leases on commercial properties have an expiry on or beyond 2032. While residential leases will typically have short or no expiry dates, tenants will typically remain in the same property for at least 10 years in Germany. The vast majority of leases incorporate provisions that allow periodic increases linked to inflation.
- **Strong liquidity:** As at 30 September 2022, Aroundtown had EUR2.3bn of cash and liquid assets, supplemented by an additional EUR1bn available under its revolving credit facility. In addition, Aroundtown expects to receive about EUR800m from property disposals over the coming months. By comparison, the company is expected to invest about EUR500m in capital projects and pay about EUR400m in dividends. This provides a very significant buffer to absorb upcoming debt maturities (about EUR100m in 2023). Further supporting liquidity is the large, unencumbered assets (~EUR23.5bn) which would allow Aroundtown to raise debt even during high challenging market conditions.

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Risks

- **Inherently linked to property market fluctuations:** Aroundtown is exposed to the prevailing property market conditions. The ongoing value of properties held may fluctuate due to a number of factors including rental levels, occupancy assumptions, vacancy periods, rental incomes and capitalisation rates, all of which may change for a variety of reasons.
- **Change in office working practices:** The pandemic has resulted in a fundamental change in working habits, with a growing take-up of hybrid working practices which is leading to a reduction of office space required by companies. To date, the impact on Aroundtown's office portfolio has been limited, in part thanks for the long lease structure and demand for premium office space across the top German cities remaining solid.
- **Exposure to consumer & leisure demand:** Approximately 23% of Aroundtown's portfolio is tied to sectors that are exposed (to some degree) to consumer discretionary spend. An economic downturn in Europe could lead to a drop in demand which has a potential flow-on impact on the company. While this exposure is not immaterial, it is important to note that Aroundtown is not directly exposed to consumer spending since it acts as landlord (rather than operator), noting reduced rents were collected over the past two years. We also note that leisure visitor arrivals to Europe have broadly recovered to pre-pandemic levels, with business visitor arrivals about 20% below pre-pandemic levels (and expected to reach pre-pandemic levels by 2024).
- **High debt load**: Aroundtown has a relatively high debt load, reporting total debt of EUR14.8bn as at 30 September 2022, equivalent to a debt-to-capital ratio of 49%. Net debt-to-EBITDA leverage stood at 12.2x (YTD 2022 results, annualised). While large debt quantums are relatively common for real estate companies (given the underlying value of assets which can be traded and the relative predictability of income), the current debt level provides only a marginal buffer. Mitigating this risk is the comparatively solid debt maturity profile, with an average debt maturity of 5.3 years and an average cost of debt of 1.3%. 96% of Aroundtown's debt was hedged against interest rate fluctuations as at 30 September 2022, with this ratio declining to 85% by the end of 2023 (assuming no new hedging is implemented). These features allow Aroundtown to exhibit strong cash flow coverage, with its interest cover ratio currently above 5x.
- **Assets located outside Australia:** Aroundtown operates exclusively in Europe and the company has no assets in Australia. In the unlikely event of a default, insolvency proceedings would take place in Germany and holders of the Australian-denominated bonds would have little to no influence in this process (as the AUD notes represent only about 1% of Aroundtown's total debt, noting though the notes rank equal to the company's senior unsecured debt, which represent 80% of Aroundtown's total debt, with the remaining 20% ranking in a more junior position).

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