

Vonovia	
Ticker Site BiG	VNA
Ticker BiGlobal Trade	VNA
Ticker BT24	VNA
Ticker BiG Power Trade	VNA
P/E Ratio 2020E	21.34
P/BV Ratio	1.59
EV/EBITDA	10.62

Source: Big Research;

Price and Performance (Values in EUR)	
Price	58.72
52 week high	62.74
52 week low	36.71
YTD	22.3%
Average daily volume (un)	1,491,313
Market Capitalization (mn)	33,229
Beta	0.62
Dividend	1.57
EPS	2.15

Source: BiG Research;

Analysts Consensus (last 3 months)	
Buy	17
Hold	9
Sell	1

Source: BiG Research;

Financial Data	
Sales (USD mn)	3,953
EBITDA (USD mn)	5,653
Number of Employees	10,345
ROA	4.8%
ROE	13.6%
D/E	1.14
Dividend Yield	2.67%

Source: BiG Research;

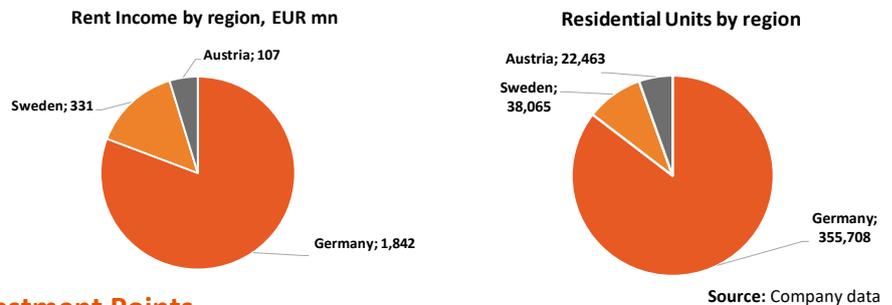
**Notes:**

All quotes were updated in Bloomberg at 14h00 of October 19th, 2020.

**Vonovia (Ticker: VNA)**

▲ **Description**

Vonovia is the largest (by number of units) German real estate company and was created through the merger of the companies Deutsche Annington and GAGFAH. Vonovia’s properties are specialized in the residential market. The company owns 416 thousand properties in Germany and manages, on the behalf of third parties, other 79 thousand properties. Vonovia’s portfolio is concentrated in Germany (84% of the total), with Sweden accounting for 11% and Austria for the remaining 5%. Vonovia’s results are generated through the rents collected, gains collected from the recurring sales of properties, development and the value-add business, which include the group’s meter reading service, provision of energy services (power generation through solar PV panels), cable TV business and saving in craftsmen work done by its own employees. The dividend policy of Vonovia is to distribute around 70% of the Group’s fund from operations.



▲ **Investment Points**

Vonovia is currently trading with a market capitalization of EUR 33.2 billion, although its portfolio’s Gross Market Value is valued at EUR 51.6 billion. This extraordinary valuable portfolio reflects the intrinsic value of its assets. Vonovia’s strategy of diversification – 92% of the German portfolio is located in 15 regional markets – leads to a portfolio highly spread nationwide, making the company less exposed to circumstances prevailing on individual regional markets. Through recent acquisitions, Vonovia reinforced its presence in Sweden and Austria, and as a major player in the residential real estate, the company can use its property development expertise to offer targeted solutions in response to current challenges such as shortage of housing, climate change, integration and cross-generational housing.

▲ **Covid-19 Impact**

As of June 30, 2020, the company stated that there are no indications of any risks that could pose a threat to the company’s existence, and no such risks are expected to arise in the future. This because the coronavirus pandemic has had no significant impact in the company’s strategy, nor on the company’s operational and financial performance. However, Vonovia will reevaluate the risk in the event of a second wave of the Covid-19 pandemic, but even in such scenario the company does not expect it to have a significant impact either.

**Analyst:**

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**With the contribution of:**

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Rental

Efficient management of own portfolio



Value-add

Ancillary service business for internal savings and external income



Recurring Sales

Disposal of individual apartments to retail buyers



Development

Construction of apartments for (i) own portfolio (ii) disposal to third parties



Source: Company data

Business Overview

Vonovia is divided into four different sources of revenues:

**Rental segment:** This is the main source of revenue and it combines all the business activities incorporated in the management of Vonovia’s residential real estate. It includes the properties managed in Germany, Austria and Sweden.

**Value-add segment:** This segment refers to services that the company has expanded into the core rental business. These services include both the maintenance and modernization work on the properties and services that are related to the rental business. Therefore, this segment includes the revenues from activities related to craftsmen, residential environment organization, condominium administration business, cable TV business, metering services, energy supplies and the company’s insurance services.

**Recurring Sales segment:** It includes the regular and sustainable disposals of individual condominiums and single-family houses from Vonovia’s portfolio. However, it does not include the sale of entire buildings or land, which are qualified as Non-core Disposals because these properties are only sold when the right opportunities present themselves, so those are not recurring sales. The Non-core Disposals are reported in the Other segment.

**Development segment:** Refers to the project development of new apartments. This whole segment covers the value chain which starts from the acquisition of land without any development plan or dedicated purpose to the completion of new buildings and new constructions. These built properties are either incorporated into Vonovia’s portfolio or sold to third parties. The development projects focus in selected attractive locations, and the company has currently been focusing on Berlin, Hamburg and Vienna.

The **Group Funds From Operations (FFO)** includes the earnings contributions made from all four segments. The **Group FFO** is key for managing the sustained operational earnings power of Vonovia’s business. It is calculated as follows:

Calculation of Group FFO			
Rental income	Income Value-add	Income from Disposal of Recurring Sales	Disposal of development properties to sell
(-) Maintenance expenses	(-) Operating expenses Value-add	(-) Fair value of property sold	(-) Construction costs to sell
(-) Operating expenses Rental	-	= Adjusted profit from disposal	= Net profit developments to sell
-	-	(-) Selling costs Recurring Sales	(+) Fair value Developments to hold
-	-	-	(-) Construction costs to hold
-	-	-	= Net profit developments to hold
= Adjusted EBITDA Rental	= Adjusted EBITDA Value-add	= Adjusted EBITDA Recurring Sales	(-) Operating expenses Development
			= Adjusted EBITDA Development
Adjusted EBITDA Total			
		(-) Interest expense FFO	
		(-) Current income taxes FFO	
		(-) Consolidation	
		= Group FFO	

Source: Company data, BiG Research

Analyst:  
João Calado, CFA

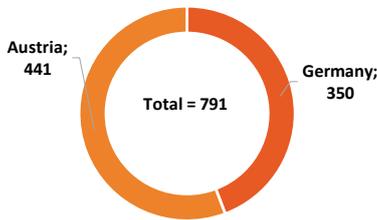
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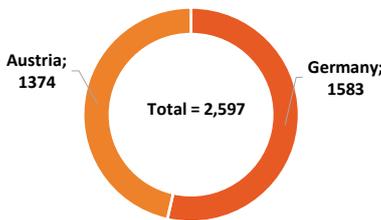
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**Developments to sell:**

**Completed projects in 2019**

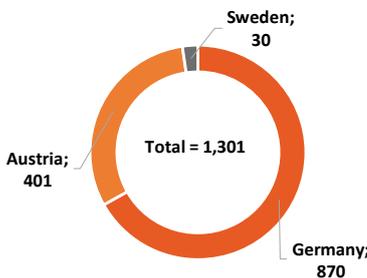


**Projects under construction**

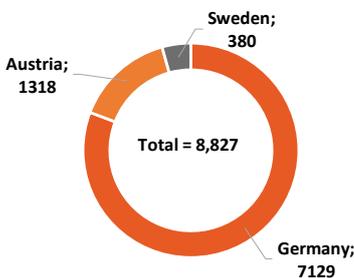


**Developments to hold:**

**Completed projects in 2019**



**Projects under construction**



Source: Company Data

**Development segment**

**Development to sell:** includes the units that are sold to investors or to future owner-occupiers directly.

- In 2019, the income from disposal of properties amounted to EUR 249.5 million, of which EUR 131.8 million are attributed to projects in Germany and EUR 117.6 million in Austria. As of end 2019, there were 2,957 units in the pipeline.

**Development to hold:** are those residential construction projects whose apartments will be added to Vonovia's rental portfolio. It also includes preexisting new construction business, which refers to the construction of new residential units on property that already belongs to the company.

- A total of EUR 266.3 million was realized, with EUR 164.3 million attributable to projects in Germany, EUR 96.3 million in Austria and EUR 5.7 million in Sweden. As of end 2019, there were 8,827 units in the pipeline.

**Portfolio in the Property Management Business**

As of December 31, 2019, Vonovia had a total real estate portfolio comprising 416,236 residential units, 138,176 garages and parking spaces and 6,748 commercial units, through 653 cities, towns and municipalities in Germany, Sweden and Austria. Besides, the company manages 78,691 residential units from other owners.

Portfolio and Fair Value	Portfolio			Fair value		
	Residential units	Living area (in thou. m <sup>2</sup> )	Vacancy (%)	Million EUR	(EUR/m <sup>2</sup> )	In-place rent multiplier
Strategic	323,360	20,031	2.3	38,875	1,891	23.4
Operate	85,125	5,351	3.3	10,954	1,893	22.0
Invest	238,235	14,680	2.0	27,921	1,890	24.0
Recurring Sales	28,153	1,882	3.0	3,887	2,021	24.8
Non-core Disposals	4,195	299	7.6	514	1,333	19.4
Vonovia Germany	355,708	22,212	2.5	43,276	1,893	23.5
Vonovia Sweden	38,065	2,730	2.3	5,642	1,899	17.1
Vonovia Austria	22,463	1,675	4.7	2,655	1,455	24.7

Rent and Rental Growth	In-place rent			Fair value	
	Total (EUR mn)	Residential (EUR mn)	Residential (EUR/m <sup>2</sup> )	Organic (%)	Market rent forecast valuation
Strategic	1,659	1,589	6.78	3.9	1.7
Operate	498	442	7.17	6.0	1.7
Invest	1,161	1,148	6.64	3.0	1.7
Recurring Sales	157	151	6.90	2.8	1.7
Non-core Disposals	26	21	6.26	0.4	1.8
Vonovia Germany	1,842	1,761	6.79	3.7	1.7
Vonovia Sweden	331	303	9.46	5.3	2.0
Vonovia Austria	107	89	4.64	4.1	1.6

Source: Company data, BiG Research

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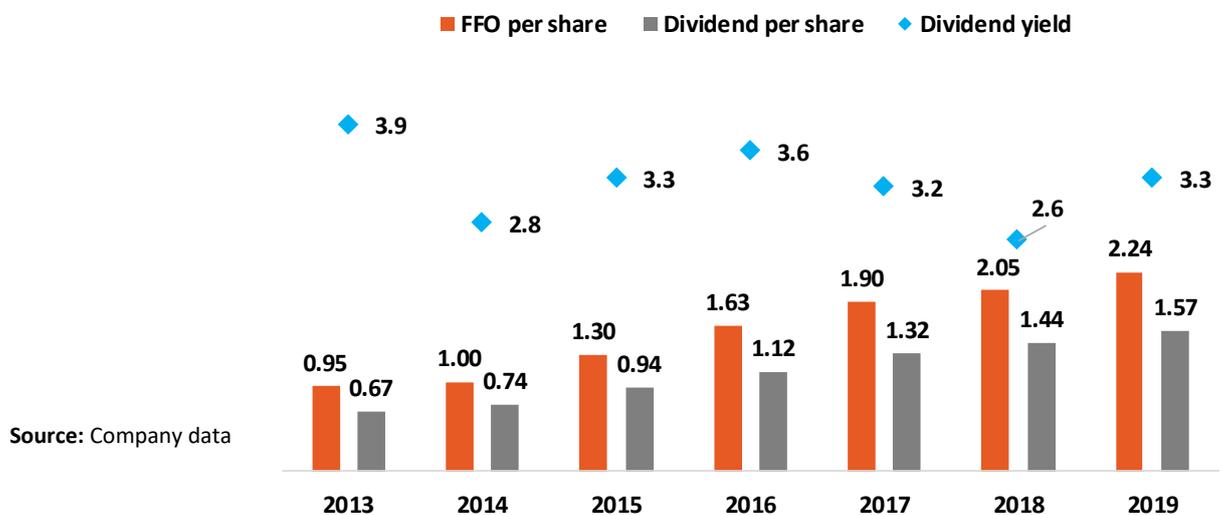
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▲ **Investment Case**

**Increasingly professional rent markets:** The residential rent market in Europe is mostly composed by private individuals who rent their housing units. However, the market in the north of Europe is increasingly becoming more professional, with companies as Vonovia and peers creating housing developments, but this change is still in its initial phase – only 4% of rental units are listed companies and 65% of rental units are held by private individuals. The continuous investment of Vonovia in developing housing solutions in central urban areas, both in Germany and in other European countries through the acquisition and partnerships it has developed provide growth in revenues for the company.

**Recent Acquisitions:** Vonovia expanded its portfolio in 2018 through the acquisitions of majority stakes in Buwog and Victoria Park. The acquisition of BUWOG, an Austrian real estate company, for a price per share of EUR 29,05 – total investment of around EUR 4,740 million – increased Vonovia’s portfolio by 48,300 apartments. Later, Vonovia acquired Victoria Park (81,1% of voting rights), a Swedish real estate company with a portfolio of 14,000 apartments and a focus in the metropolitan regions of Stockholm, Malmö and Gothenburg. Vonovia outbid Starwood in the bidding war for Vitoria Park, offering around EUR 1,36 bn. Vonovia also acquired a portfolio of 4,000 residential units in France, through a consortium (Vonovia’s share is equivalent to 10%). In 2019, Vonovia acquired Hembla, a Swedish residential real estate company, with a portfolio comprising around 21,500 apartments in Sweden, making Vonovia the largest residential provider in Sweden.

**Dividend:** As a real estate company, Vonovia may deliver an interesting dividend yield for those investors looking for passive return. The continuity of the company’s strategy is also reflected in its dividend policy. The company aims to distribute around 70% of its Group FFO to the shareholders. Regarding the 2019 fiscal year, Vonovia paid a dividend per share of EUR 1.57, which represents an increase of 9% against 2018. Besides, Vonovia give its shareholders the option to choose between receiving the dividend in cash or in shares. In 2019, 41% of Vonovia’s shareholders opted for the scrip dividend, which is a good indicator that investors expect Vonovia to be successful in reinvesting the capital in the medium and long term.



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## Income Statement

Income Statement (USD mn)	2019	2018	2017
Income from property letting	2,841	2,648	2,344
Other income from property management	70	60	48
<b>Income from property management</b>	<b>2,911</b>	<b>2,708</b>	<b>2,392</b>
Income from disposal of properties	511	1,098	1,206
Carrying amount of properties sold	-442	-934	-1,206
Revaluation of assets held for sale	60	69	81
<b>Profit on disposal of properties</b>	<b>129</b>	<b>232</b>	<b>152</b>
Disposal of properties (Development)	250	225	-
Cost of sold properties	-197	-182	-
<b>Profit on disposal of properties (Dev.)</b>	<b>52</b>	<b>43</b>	<b>0</b>
Net income from fair value adjustments of investment properties	4,132	3,518	3,434
Capitalized internal expenses	687	608	458
Cost of materials	-1,463	-1,381	-1,176
Personnel expenses	-536	-513	-416
Depreciation and amortization	-2,176	-738	-372
Interest expenses	-418	-421	-353
Other	-179	-182	-112
<b>Earnings before tax</b>	<b>3,139</b>	<b>3,874</b>	<b>4,007</b>
Income tax	-1,845	-1,472	-1,441
<b>Profit for the period</b>	<b>1,294</b>	<b>2,403</b>	<b>2,567</b>

Source: Company Data

## Balance Sheet

Balance Sheet (EUR mn)	2019	2018	2017
<b>Assets</b>	<b>56,498</b>	<b>49,388</b>	<b>37,516</b>
Intangible assets	1,604	2,943	2,637
Property, plant and equipment	359	250	178
Investment properties	52,737	43,491	33,183
Financial assets	254	889	698
Trade receivables	206	493	235
Cash and Cash equivalents	501	548	266
Assets held for sale	134	106	143
Real estate inventories	358	307	0
Other Assets	345	361	176
<b>Liabilities</b>	<b>35,428</b>	<b>29,724</b>	<b>20,825</b>
Provisions	662	617	607
Trade payables	219	239	131
Non-derivative financial liabilities	21,198	17,438	12,459
Deferred tax liabilities	9,272	7,232	5,323
Other liabilities	4,077	4,198	2,305
<b>Total Equity</b>	<b>21,070</b>	<b>19,664</b>	<b>16,691</b>
<b>Total Equity and Liabilities</b>	<b>56,498</b>	<b>49,388</b>	<b>37,516</b>

Source: Company Data

## Cash Flows

Free Cash Flow (USD mn)	2019	2018	2017
<b>Operational Cash Flow</b>	<b>1,556</b>	<b>1,133</b>	<b>946</b>
Profit for the period	1,294	2,403	2,567
Depreciation and amortization	2,176	738	372
Net income from fair value adjustments of investment properties	-4,132	-3,518	-3,434
Interest expenses/income	396	440	326
Income taxes	1,845	1,472	1,441
Others	-23	-402	-326
<b>Investment Cash Flow</b>	<b>-2,506</b>	<b>-3,893</b>	<b>-1,351</b>
Disposal of inv. properties held for sale	703	1,054	1,165
Disposal of other assets	696	7	16
Investments of investment Properties	-2,092	-1,359	-1,043
Acquisition of shares in companies	-1,716	-3,388	-1,412
Others	-97	-207	-77
<b>Financial Cash Flow</b>	<b>903</b>	<b>3,042</b>	<b>-871</b>
Borrowing	5,333	5,064	2,921
Debt repayment	-3,627	-1,902	-3,249
New shares	744	996	0
Interest paid	-396	-306	-304
Dividend in cash	-418	-401	-278
Others	-733	-409	39
<b>Change in free cash flow</b>	<b>-47</b>	<b>282</b>	<b>-1,275</b>
Cash at the end of period	501	548	266

Source: Company Data

In 2019 the net operating result was tremendously affected by good impairments in the amount of EUR 2,104 million (2018: EUR 691 million). This negative impact was partially offset by the net income from fair value adjustments of investment properties of EUR 4,132 million (2018: EUR 3,518 million). However, income from property letting has been steadily increasing (2019: 7.3%; 2018: 13%) due to organic and acquisition driven growth.

With the acquisition of BUWOG, Victoria Park AB and Hembla AB, and the existing property increased valuation (EUR 4,132 million), the company increased substantially its total assets, from EUR 37.5 billion in 2017 to EUR 56.5 billion in 2019. To finance those operations the company had to issue a large quantity of debt, besides liabilities increased by EUR 2,040 million due to the increase in deferred taxes primarily as a result of the increase in the value of the real estate portfolio. Both conditions lead to a substantial increase of Vonovia's liabilities from EUR 20.8 billion in 2017 to EUR 35.4 billion by end 2019. However, the company has followed a sustainable growth and the recurrent positive valuation of its assets maintained a healthy level of Loan-to-value ratio, which by the end of 2019 reached 43.1% - between the company's target range of 40-45%.

The group strategy is to take advantage of the low interest rate environment in order to expand its portfolio through the acquisition and development of new high-quality assets, to then sell some and retain the majority of the new properties in its portfolio. For that purpose, the operation cash flow plus the disposal of investment properties has not been enough to cover the total yearly capital expenditure (2019: EUR 5,305 million; 2018: EUR 7,587 million). Thus, to maintain its expansion, the company has financed part of the capital expenditure through new debt.

The Group distributes 70% of its FFO in dividend each year (cash and noncash).

EUR Mn	2019	2018	2017
Acquisitions	3,694	6,346	2,711
Development	493	234	66
Like-for-like portfolio	1,118	1,006	772
Other	-	-	-
<b>Total Capital Expenditure</b>	<b>5,305</b>	<b>7,587</b>	<b>3,549</b>

Source: Company data, BiG Research

### Analyst:

João Calado, CFA

### With the contribution of:

Francisco Cavaco

### Research:

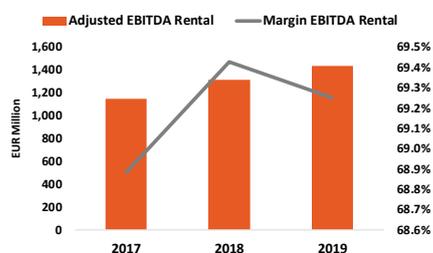
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## Group FFO

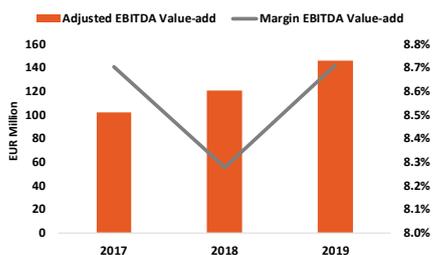
### Rental Segment:

EUR Million	2019	2018	2017
Rental Income	2,075	1,894	1,668
Expenses for maintenance	-309	-290	-258
Operating expenses	-329	-289	-261
<b>Adjusted EBITDA Rental</b>	<b>1,437</b>	<b>1,315</b>	<b>1,149</b>
<b>Margin EBITDA Rental</b>	<b>69.3%</b>	<b>69.4%</b>	<b>68.9%</b>



### Value-add Segment:

EUR Million	2019	2018	2017
Revenue Value-add	1,677	1,462	1,171
Thereof external revenue	248	204	162
Thereof internal revenue	1,429	1,258	1,009
Operating expenses	-1,531	-1,341	-1,068
<b>Adjusted EBITDA Value-add</b>	<b>146</b>	<b>121</b>	<b>102</b>
<b>Margin EBITDA Value-add</b>	<b>8.7%</b>	<b>8.3%</b>	<b>8.7%</b>



### Recurring Sales Segment:

EUR Million	2019	2018	2017
Disposal Recurring Sales	365	356	306
Fair value of properties sold	-258	-263	-231
Selling costs	-15	-14	-13
<b>Adjusted EBITDA R. Sales</b>	<b>92</b>	<b>79</b>	<b>62</b>
<b>Margin EBITDA R. Sales</b>	<b>25.2%</b>	<b>22.2%</b>	<b>20.3%</b>



### Rental Segment

By the end of 2019, the apartment vacancy rate was 2.6% and the Rental income rose by 9.5% to EUR 2,075 million, largely due to the acquisition of BUWOG and Victoria Park in 2018 and Hembra in 2019, but also due to organic growth resulting from new construction and modernization. BUWOG contributed a volume of EUR 201 million, Victoria Park a volume of EUR 136 million and Hembra a volume of EUR 30 million. It should also be noted that from the rental income, EUR 1,801 million is attributable to Germany, EUR 108 million to Austria and EUR 165 million to Sweden. The increase in rent due to market-related factors reached 1.1%, but the company was able to increase rents by 2.3% as a result of property value improvements through modernization. The operating expenses of the Rental segment increased 13.5% due to larger portfolio.

### Value-add Segment

The Value-add segment performed extremely well during 2019 due to an expansion of the services offered such as cable television, metering services, insurance and residential environment services, and energy supply services. The company supplied a total of 18,200 households with energy directly. The revenue from the Value-add segment increased 14.7% to a total amount of EUR 1,677 million in 2019. This led to an increase of 20.7% in the Adjusted EBITDA to EUR 146 million, however, due to its low margin, this segment still represents a small portion of total EBITDA.

### Recurring Sales Segment

The income from disposal of properties came to EUR 365 million in 2019, up by 2.5%. From this amount, EUR 250,9 million corresponds to sales in Germany and EUR 114 million to sales in Austria. The Adjusted EBITDA reached EUR 92 million (+16.2% YoY). Besides, the fair value step-up for Recurring sales increased from 35.5% in 2018 to 41.3% in 2019 as a result of higher market prices.

### Development Segment

In 2019, the Development segment made positive contributions in all regions, allowing it to contribute to Vonovia's growth. Last year, a total of 791 units to sell were completed, generating an income from the disposal of EUR 250 million. In Development to hold, a total of 1,301 units were built, leading to a fair value of EUR 266 million.

EUR Million	2019	2018	2017
Income from disposal	250	225	-
Cost of Development to sell	-197	-182	-
<b>Gross profit Development to sell</b>	<b>52</b>	<b>43</b>	<b>-</b>
Fair value Development to hold	266	98	23
Cost of Development to hold	-207	-79	-17
<b>Gross profit Development to hold</b>	<b>59</b>	<b>19</b>	<b>7</b>
Operating expenses	-27	-23	-
<b>Adjusted EBITDA Development</b>	<b>85</b>	<b>39</b>	<b>7</b>
<b>Margin EBITDA Development</b>	<b>16.5%</b>	<b>12.1%</b>	<b>-</b>

Source: Company data

**Analyst:**  
João Calado, CFA

**With the contribution of:**  
Francisco Cavaco

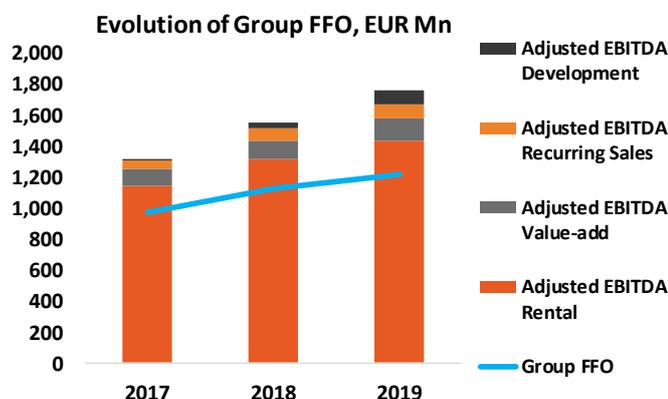
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## Funds From Operations (FFO)

FFO is the primary key indicator for sustained earning power, and in 2019 it increased by 7.7% to EUR 1,219 million, largely due to acquisitions and organic growth. Thus, the company exceeded the forecast range of EUR 1,140 million to EUR 1,190 million stipulated at the start of the year in the 2018 annual report.

EUR Million	2019	2018	2017
Adjusted EBITDA Rental	1,437	1,315	1,150
Adjusted EBITDA Value-add	146	121	102
Adjusted EBITDA Recurring Sales	92	79	62
Adjusted EBITDA Development	85	39	7
<b>Adjusted EBITDA Total</b>	<b>1,760</b>	<b>1,555</b>	<b>1,320</b>
FFO interest expense	-359	-329	-288
Current income taxes FFO	-50	-37	-23
Consolidation	-133	-58	-35
<b>Group FFO</b>	<b>1,219</b>	<b>1,132</b>	<b>975</b>



Source: Company data

## 9M 2020 Earnings

Financial Key Figures, EUR million	9M2019	9M2020
<b>Rental income</b>	<b>1,527</b>	<b>1,707</b>
<b>Adjusted EBITDA Total</b>	<b>1,331</b>	<b>1,433</b>
Adjusted EBITDA Rental	1,083	1,179
Adjusted EBITDA Value-add	118	110
Adjusted EBITDA Recurring Sales	69	75
Adjusted EBITDA Development	62	69
<b>Group FFO</b>	<b>933</b>	<b>1,016</b>
<b>Group FFO per share</b>	<b>1.72</b>	<b>1.80</b>
Income from fair value	2,283	1,830
EBT	1,005	2,832
<b>Profits for the Period</b>	<b>63</b>	<b>1,892</b>
Cash flow from operating activities	1,132	1,017
Cash flow from investing activities	-394	-1,205
Cash flow from financing activities	-128	1,402
<b>Capex</b>	<b>1,301</b>	<b>1,360</b>

Source: Company data

- **Rental Segment:** The apartment vacancy rate was at 2.9%, down slightly from 2.9%. Rental income rose by 11.8% from EUR 1,527 million in first half of 2019 to EUR 1,706.9 million in the first 9 months of 2020, much due to the additional rental income from the Hembla portfolio (contributed EUR 135.3 million), but also due to organic growth resulting from new construction and modernization measures. The group was able to achieve an increase in rent of 3.0%, of which 0.8% was due to market-related factors.
- **Value-add Segment:** This segment developed in line with expectations, although it was impacted by the coronavirus pandemic. The company continues to expand its business activities designed to complement the rental segment. Overall, Adjusted EBITDA was down 6.3% largely due to construction delays on some modernization measures as a result of the coronavirus pandemic.
- **Recurring Sales Segment:** Income from disposal of properties came to EUR 296.5 million (+8.4% YoY), leading to an Adjusted EBITDA of EUR 74.9 million (+8.4%). The fair value step-up reached 41.4%, slightly down from the 41.4% registered in the first 9 months of 2019.
- **Development Segment:** In the Development to sell, 381 units were completed and the income from the disposals amounted to EUR 181.6 million. Regarding Development to hold, a total of 1,056 units were completed. The Adjusted EBITDA reached EUR 68.8 million (+11% YoY).
- **Group FFO:** Overall, the FFO increased by 8.9% to a total of EUR 932.8 million, largely due to acquisition of Hembla and organic growth.
- **The Group** ended the first 9 months of the year with EUR 500.7 million in cash and cash equivalents and a Loan-to-Value of 40.6% (end-2019: 43.1%).

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▲ **2Q 2020 Conference Q&A** (paraphrasing)

**Q: What is your view on the work-from-home trend and what implications, chances of risk could this trend have on Vonovia's strategy? Do you see any risks or chances there that may be tenants demanding big apartments, because they need an office room, or do you see that there is a risk that the urbanization trend might stop and people use the opportunity to move outside of the bigger cities?**

**A (CEO):** No, I think one of the big drivers to choose a location is actually a school system for everybody who has children, and this is literally better in the cities. Besides, people will not move far away from cities like Berlin if they only have to commute 2 or 3 days a week. They would rather move very close to Berlin. But this is where we operate, we are not in the city center, but a little bit on the outside where the people would move to. And in terms of apartment size, the biggest problem was the children being at home at the same time as parents, so with children returning to kindergarten and schools, people will be able to work from their existing apartments.

**Q: Could you share your view on how investment demand for residential assets and residential prices could develop in light of high macro-economic uncertainties? High unemployment rates on the one hand, but clearly negative interest rates will likely persist for much longer.**

**A (CEO):** There is no trend. If you look at the valuation, especially of individual apartments, it is like a ruler, it has no change in trend. Of course, for the block sales, you see sometimes a little bit more volatility, but this is because there is less transactions. So, this is a very, very stable trend, and there is no reason why anything should change there. And it is probably partly driven by interest rates, but I think more importantly, it is driven by demand and supply, and demand and supply are not changing due to Covid-19, it is not changing due to economic cycles. People just have to live in the cities, and there is no alternative to the normal product. The long-term trend will only change if Germany would be able to deliver much more construction volumes, but as long as we have so much construction permission issues, I don't see any change in the trend.

**Q: What are rating agencies expecting from you before you get on an A-rating. Like, what is the requirement to become A rated? What kind of financial target is it that they are looking for? Is it net debt to EBITDA or is it an LTV?**

**A (CFO):** It is not really that they are not happy with the current situation, it just they want to have a firm commitment from us. It is an ongoing debate. We are constantly showing resilience and strength compared to other companies with a higher rating, specially the way we go around this crisis. So, let us say, it is an ongoing friendly discussing between the two of us.

**A(CEO):** We owners are prepared to do acquisitions, and sometimes, we are doing acquisitions without raising equity, even if it is the small acquisitions. So that is why we stick still with a corridor in LTV down from 40% to 45%, it is a good comfortable corridor. We think you can run this company even with a 45% LTV easily. So, I don't see any need to strengthen our jacket.

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**▲ 3Q 2020 Conference Q&A** (paraphrasing)

**Q: Given that the Constitutional Court has rejected the complaint to sustain the rent reduction in Berlin last week, what is your reading on this announcement, do you interpret it as a ruling or a formality?**

**A(CEO):** So, to be very clear, I think I would see this as a formality. I don't want to go in legal impact here and discuss it here, but it is a formality. There are a lot of lawyers who are saying it can partly exist, but there are also few lawyers who are saying the rent freeze is completely constitutional. That is why there is still some room for surprises coming in the H1 next year.

**Q: You make some very impressive targets with regards ESG. Basically, the way I read into it is that quite a lot more Capex needs to be spent of the portfolio in order to get to your target. How should we read into that?**

**A(CFO):** We invest around EUR 1.3 billion to EUR 1.6 billion, which is more or less the money which we can afford year-by-year from our cash flow profile. And I think we are happy to continue to invest exactly this and we can deliver the target and do additional investments. So, I think there is no change in the capital need, we just have to proceed with the investment and shift a little bit to more energy production.

**Q: What about the return mix? Do you expect as a result of shifting that Capex, it will make a change to your return profile on the return received on that Capex or do you expect that it will remain broadly similar compared to what it is now?**

**A(CEO):** I think it will be similar. What actually happens is what we call fuels switch, we are replacing traditional gas by more clean heating, which bring high subsidies. But this is a relatively low investment, because is only the heating system, so it is not a massive investment which we have to do in the buildings. So, it will be more or less unchanged.

**Q: You mentioned condominium market is doing really well, but is it only older building that you are selling from your portfolio, or also for new buildings in developed to sell?**

**A(CEO):** In cities where there is an imbalance between supply and demand, and we are only located in those cities, as long as there is more demand than supply prices are going up. And in combination with long term low interest rates, this actually not a surprise. There is enormous demand for condominiums in the big cities. We have seen that despite the coronavirus crisis, the demand for condominiums, both in Austria and in Germany, continues to be unabated. It is quite amazing what is going on there.

**Q: What rental growth can we expect more in the longer term? Is it what you say, is it a 3% level we currently see, or could it be even lower?**

**A(CEO):** I will probably say 3% is fine, and if inflation goes up, we would see a higher level. There is still a lot of volatility due to the Berlin effect.

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**Management**


Source: Company data

**Year of Birth:** 1965

**Nationality:** German

**Appointed until:** 28 February 2023

**Rolf Buch (CEO):** Rolf Buch is the Chief Executive Officer of Vonovia since 2013, but prior to that he was member of the management board of Bertelsmann SE and CEO of Arvato AG. During his mandate at Arvato, a services company in the logistics industry, the company grew into a global Business Process Outsourcing (BPO) with more than 60 thousand employees in over 40 countries, and became the fastest growing business division of Bertelsmann SE. As the CEO of Vonovia, Buch took the company public and largely expanded the property portfolio through acquisitions. Rolf Buch studied Mechanical Engineering and Business Administration at the RWTH Aachen University.

**Helene von Roeder (CFO):** Helene von Roeder has held the position of CFO on the Management Board of Vonovia SE since May 2018. Helene studied physics in Munich and theoretical astrophysics in Cambridge, but in 1995 she initiated her career at Deutsche Bank in London. Then she worked for UBS AG in Frankfurt and London from 2000 to 2004. After, Helene moved to Morgan Stanley Bank in Frankfurt, reaching the role of Head of Global Capital Markets for Germany and Austria. Her last role before joining Vonovia was as the head of Credit Suisse business in Germany, Austria and Central and Eastern Europe (CEE).



Source: Company data

**Year of Birth:** 1970

**Nationality:** German

**Appointed until:** Annual General Meeting 2023

EUR	CEO		CFO	
	2018	2019	2018	2019
Fixed remuneration	1,150,000	1,150,000	386,957	600,000
Compensation payment	-	-	64,874	64,874
Cash remuneration	-	-	-	-
Fringe benefits	26,651	27,453	13,157	29,608
<b>Total</b>	<b>1,176,651</b>	<b>1,177,453</b>	<b>464,988</b>	<b>694,482</b>
Annual variable remuneration (bonus)	700,000	700,000	283,768	440,000
<b>Multi-year variable remuneration (LTIP)</b>				
2018-2021	1,902,392	-	516,592	-
2019-2022	-	2,060,584	-	867,614
<b>Total</b>	<b>2,602,392</b>	<b>2,760,584</b>	<b>800,360</b>	<b>1,307,614</b>
Pension expenses	966,356	946,410	265,457	437,241
<b>Total remuneration</b>	<b>4,745,399</b>	<b>4,884,447</b>	<b>1,530,805</b>	<b>2,439,337</b>

Source: Company data

**Jürgen Fitschen (Chairman of the Supervisory Board):** Jürgen Fitschen is currently the Chairman of the Supervisory Board at Vonovia. He was co-CEO of Deutsche Bank from 2012 until 2016, and President of the Association of German Banks from 2013 until 2016.

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## ▲ Peer Comparison

Vonovia has a P/E in line with its peers' average, however, one should not take this metric very seriously when examining real estate companies. First because these companies employ large amounts of their revenues to Capex. Secondly, and perhaps more important, these companies must report sharp decreases or increases in their portfolio valuation, leading to a mixed signal in the net income.

Thus, it is more accurate to look at the price over funds from operations ratio, which in this case indicates that Vonovia is overvalued when compared to its peers. Vonovia is discounting a high expected growth due to its well oriented strategy to grow organically and via acquisitions.

Name	Country	Currency	Market Cap (Mn)	P/E next	P/FFO	Dividend Yield	Net Debt/EBITDA	EV/EBITDA	CFO/Capex	ROA	YTD
GRAND CITY PROPERTIES	Germany	EUR	4,124	17.7	19.3	3.9%	4.47	11.4	0.5	4.3%	-2.3%
TAG IMMOBILIEN AG	Germany	EUR	4,640	17.7	28.8	3.0%	4.44	9.7	1.5	7.5%	26.5%
LEG IMMOBILIEN AG	Germany	EUR	10,490	20.9	28.7	2.9%	3.37	9.2	0.9	7.2%	17.3%
DEUTSCHE WOHNEN SE	Germany	EUR	19,114	26.5	35.5	2.0%	5.90	13.7	0.3	4.1%	24.2%
VONOVIA SE	Germany	EUR	39,054	21.4	30.3	2.7%	4.64	10.6	0.6	4.8%	22.5%
<b>Average exc. Vonovia</b>	-	-	-	<b>20.7</b>	<b>28.1</b>	<b>3.0%</b>	<b>4.5</b>	<b>11.0</b>	<b>0.8</b>	<b>5.8%</b>	<b>16%</b>

## ▲ Risks

**Regulation:** The rent market in German is regulated, which constrains the rent increases that Vonovia can enact. The company overcomes this by upgrading many of the units under management, which provides additional rent growth, to the point where company can increase rents at a pace above the market average.

**Berlin Rent Freeze:** The Act on Rent Controls in the Housing Sector in Berlin (“rent Freeze”), which came into force in February 2020 has had – at least until now - no material impact on Vonovia’s business. However, there is an unlikely risk of a Nationwide introduction a “rent freeze” similar to the “Berlin rent Freeze”, which could impact the company’s profit and loss.

**Increase in interest rates:** Real Estate companies typically have more leveraged balance sheets, as debt is often used to finance the expansion of their operations. Vonovia is no exception to this trend. The normalization of interest rates is a risk for Vonovia as the company would face higher financing costs in this environment, which could reduce the company’s ability to continue to expand.

**Drop in property value:** Another improbable risk relates to the balance sheet risk of a future market development that could lead to a drop in property values, which would result in a reduction in the fair value of Vonovia’s portfolio in the context of the fair value measurement process – with no impact on liquidity. Vonovia counters this risk by ensuring that its portfolio is diversified in terms of location, reducing the correlation with local market developments.

**Deterioration in the Residential property market:** A deterioration in the residential property market would impact the opportunities for selling apartments and buildings.

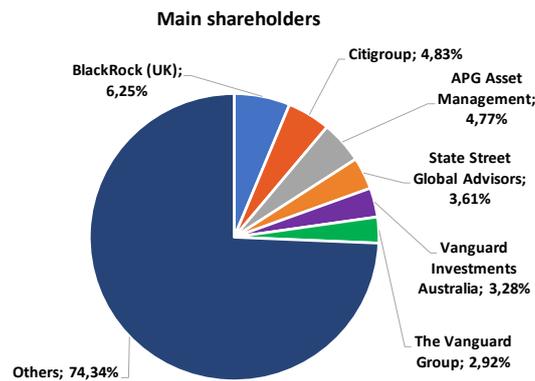
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▲ **Shareholders**



Source: Company data

▲ **Graph**



Source: BiGlobal Trade (partner Saxo Bank); BiG Research

▲ **Upcoming events**

**Next Earnings Date: Nov 04, 2020**

▲ **Annex**

**Breakdown of Strategic Housing Stock by Regional Market**

June 30, 2019	Fair value*		Residential units	Vacancy (in %)	In-place rent (in €/m <sup>2</sup> )**
	(in € million)	(in €/m <sup>2</sup> )			
<b>Regional market</b>					
Berlin	7,593.4	2,720	42,365	1.2	6.90
Rhine Main Area	4,657.1	2,615	27,421	1.8	8.42
Southern Ruhr Area	4,181.4	1,543	43,445	3.3	6.30
Rhineland	3,996.0	2,059	28,495	2.2	7.34
Dresden	3,903.2	1,701	38,516	3.7	6.29
Hamburg	2,910.5	2,271	19,750	1.6	7.30
Munich	2,361.9	3,618	9,663	1.5	8.33
Kiel	2,284.2	1,655	23,219	2.4	6.48
Stuttgart	2,211.5	2,488	13,753	1.7	8.08
Hanover	1,990.6	1,903	16,252	2.8	6.82
Northern Ruhr Area	1,738.5	1,093	25,454	3.5	5.90
Bremen	1,279.4	1,728	11,852	3.4	6.01
Leipzig	992.6	1,619	9,052	3.7	6.15
Westphalia	959.5	1,534	9,479	3.3	6.35
Freiburg	673.3	2,414	4,040	2.1	7.61
Other strategic locations	2,950.3	1,703	26,762	3.5	6.85
<b>Total strategic locations Germany</b>	<b>44,683.4</b>	<b>2,000</b>	<b>349,518</b>	<b>2.6</b>	<b>6.88</b>

\* Fair value of the developed land excluding € 1,928.1 million, of which € 582.3 million for undeveloped land and inheritable building rights granted, € 400.0 million for assets under construction, € 599.1 million for development and € 346.7 million for other.  
\*\* Shown based on the country-specific definition.

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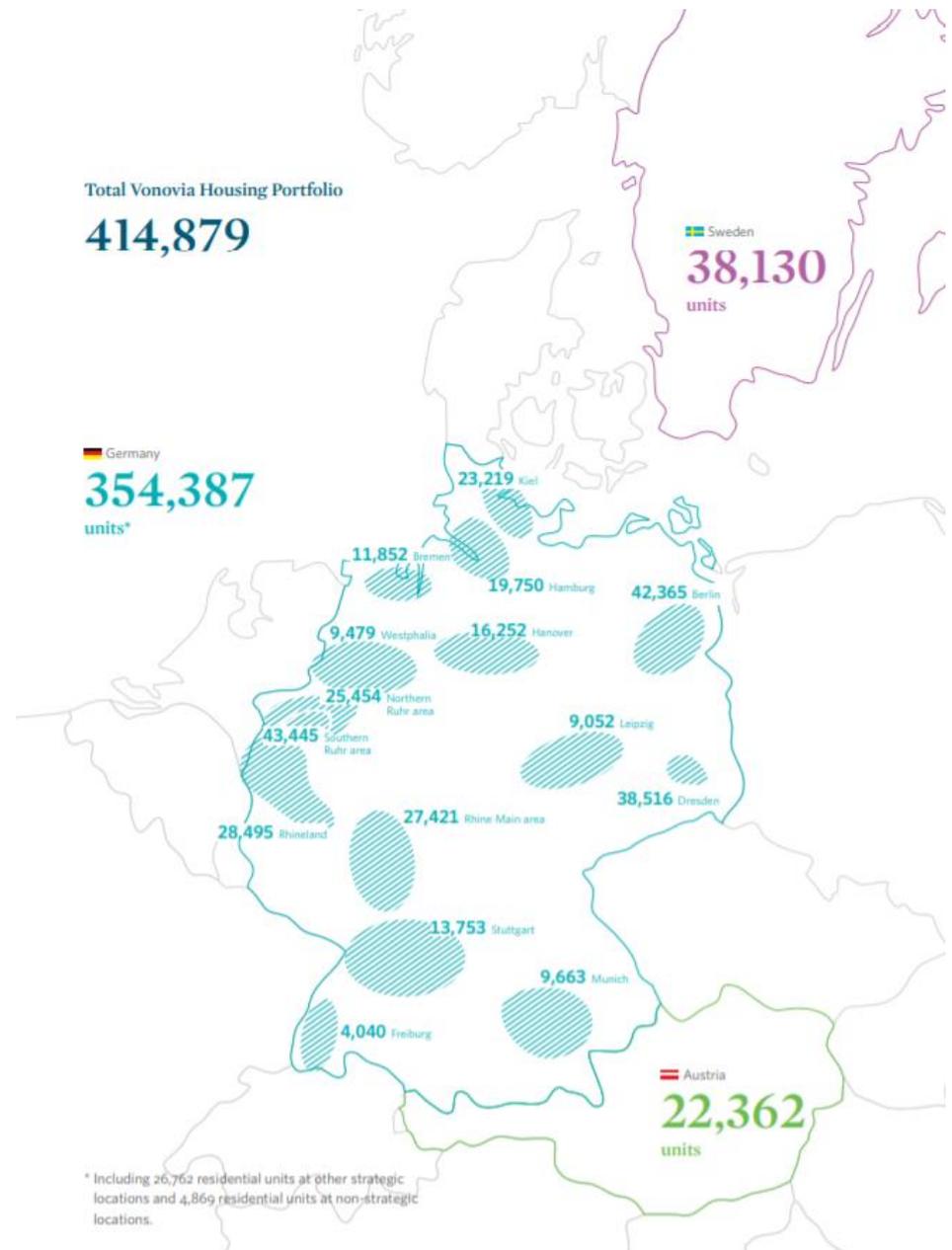
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**Portfolio Structure**

June 30, 2020	Fair value*		Residential units	Vacancy (in %)	In-place rent (in €/m <sup>2</sup> )**
	(in € million)	(in €/m <sup>2</sup> )			
Strategic	40,929.3	1,988	323,639	2.6	6.87
Operate	11,578.4	1,993	85,450	2.5	7.26
Invest	29,350.9	1,986	238,189	2.6	6.73
Recurring Sales	3,919.4	2,111	27,167	3.1	6.99
Non-core Disposals	433.3	1,513	3,581	5.7	6.52
<b>Vonovia Germany</b>	<b>45,282.0</b>	<b>1,992</b>	<b>354,387</b>	<b>2.7</b>	<b>6.88</b>
Vonovia Sweden	5,762.1	1,938	38,130	2.6	9.65
Vonovia Austria	2,726.4	1,496	22,362	4.7	4.73
<b>Total</b>	<b>53,770.5</b>	<b>1,954</b>	<b>414,879</b>	<b>2.8</b>	<b>7.03</b>



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