

GRAND CITY Properties S.A.

Luxembourg / Financial Services

Frankfurt

Bloomberg: GYC GR

ISIN: LU0775917882

Q1/16 Results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€25.00**

25.5%

Medium

OPERATIONAL MOMENTUM REMAINS STRONG IN Q1

First quarter results increased substantially led by rental income growth of 54% Y/Y to €101m (Q1/16: €66m). The results were in line with our forecasts and continued the strong momentum from 2015. Growth was supported by lower vacancy rates and higher in-place rent reported at 10% and €5.3/m² respectively as of May 2016. GCP reported a 50% Y/Y increase in Funds From Operations (FFO I) to €38m, while maintaining balance sheet discipline with a Loan-to-Value (LTV) of 40% at the end of Q1. The company is well on track to meet our full year targets. We maintain our Buy rating and €25 price target.

Rental income continues its ascent GCP reported rental income of €101m for the three month period in line with our estimate (FBe: €100m). The KPI grew 54% Y/Y and 2% Q/Q. The increase in rental income can be traced to GCP's acquisition growth, operational improvements in its existing properties through rent and occupancy increases, as well as economies of scale. The portfolio contains 80k units as of May compared to 76k at the end of 2015. We note that the potential of the portfolio was not fully reflected in the Q1 figures, given the vast number of units purchased during the year that did not fully contribute to rental income performance. As of May 2016, the monthly annualised run rates for rental income and FFO I stood at €423m and €155m respectively (March 2016 €412m and €151m).

Underlying indicators continue to improve Thanks to GCP's rigorous turnaround measures, vacancy rates were compressed further to 10% as of May 2016 compared to 10.8% in March 2016 and 13.3% at year end 2014. Meanwhile, in-place rent increased to €5.3/m² vs €5.2/m² in May 2015. Thanks to positive rental income momentum, Funds From Operations (FFO I) climbed to €37.7m compared to €25.2m in Q1/15. The company boosted its portfolio value while maintaining balance sheet discipline. This was highlighted by a declining Loan-to-Value (LTV) reported at 40% vs 42% at the end of 2015. (p.t.o)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Rental income (€m)	99.63	216.84	333.50	431.98	521.83	645.81
Y-o-y growth	n.a.	117.6%	53.8%	29.5%	20.8%	23.8%
Adj. EBITDA (€m)	54.24	112.01	176.52	221.70	268.30	333.04
Net income (€m)	266.1	243.8	393.6	364.8	450.2	565.0
EPS (diluted) (€)	2.97	1.52	2.35	1.89	2.33	2.93
EPRA NAV (€m) ¹	861.92	1439.38	2544.35	2906.86	3395.54	4034.80
DPS (€)	0.00	0.21	0.20	0.36	0.44	0.54
FFO I (€m)	38.14	76.11	127.92	157.88	193.41	243.52
Net gearing	71.0%	103.9%	80.1%	68.0%	77.4%	79.4%
Liquid assets (€m)	166.80	272.30	388.93	669.72	445.14	400.15

¹ including hybrid notes

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, which would affect unhedged financial debt, unfavourable macroeconomic development, and departure of key personnel.

COMPANY PROFILE

GRAND CITY Properties (GCP) is a real estate firm focusing on investing in and managing turnaround opportunities in the German real estate property market. GCP's portfolio is located in Germany's densely populated areas. GCP's primary strategy regarding its real estate investments is "buy-and-hold" long term, while "buy-and-sell" is an opportunistic component.

MARKET DATA

As of 17 May 2016

Closing Price	€ 19.92
Shares outstanding	153.79m
Market Capitalisation	€ 3063.50m
52-week Range	€ 14.58 / 21.50
Avg. Volume (12 Months)	238,431

Multiples	2015	2016E	2017E
P/E	8.5	10.6	8.6
P/EPRA NAV	1.1	1.1	0.9
FFO I Yield	4.5%	5.1%	6.2%
Div. Yield	1.0%	1.8%	2.2%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2016

Liquid Assets	€ 649.60m
Current Assets	€ 921.00m
EPRA NAV ¹	€ 2,663.20m
Total Assets	€ 5,206.00m
Current Liabilities	€ 229.80m
Total Equity	€ 2402.00m

¹ including hybrid notes

SHAREHOLDERS

Edolaxia Ltd.	32.0%
FMR LLC	4.6%
Merrill Lynch Intl	2.6%
Odey Asset Mngt	2.3%
Free Float	58.5%

**Figure 1: First quarter result vs forecasts**

in € '000	Q1 2016A	Q1 2016E	delta	Q1 2015A	delta
Rental income	100,751	100,250	0.5%	65,608	53.6%
Capital gains, property revaluations & other	69,217	61,750	12.1%	59,628	16.1%
Adjusted EBITDA*	53,261	52,430	1.6%	34,244	55.5%
Adjusted margin	52.9%	52.3%	-	52.2%	-
Net income	90,457	80,540	12.3%	80,298	12.7%
Diluted EPS	0.43	0.38	12.3%	0.53	-18.9%

*adjusted for capital gains, property revaluations, and other income

Source First Berlin Equity Research; Company

Scalability translates rental income into strong profitability The capital gains, property revaluations and other income line item climbed to €69.2m (Q1/15: €59.6m), nearly all of which was generated by changes in the fair value of investment properties. This was driven chiefly by successful increases in rent and occupancy metrics translating into increased property valuations conducted by external assessors. Property operating expenses increased 52% Y/Y to €46m, due chiefly to the increase in related purchased services, i.e. warm costs (water and heating) traced to rental income. At the operating level, administration and other expenses increased 32% Y/Y to €12.1m reflecting the overall growth of GCP. The lower growth in this KPI also underscores the scalability of the GCP platform, which delivered 54% Y/Y growth for the quarter. Adjusted EBITDA in Q1/16 surged 56% Y/Y to €69m (Q1/15: €34m; FBe: €53m). Net income(NI) grew sharply by 13% Y/Y to €91m (Q1/15: €80m) fuelled by top line growth, revaluation profits and economies of scale. Fourth quarter NI amounted to €58m equal to an 83% Y/Y rise. NI corresponded to diluted EPS of €0.43 for the period.

Figure 2: Financial position highlights Q1/16

in €'000	Q1/16	2015	Delta
Cash & liquid assets	649,577	388,925	67.0%
Investment property ¹	4,025,288	3,859,511	4.3%
Total equity	2,402,037	2,172,295	10.6%
EPRA NAV inc. Hybrid notes	2,663,142	2,544,347	4.7%
EPRA NAV	2,182,615	2,066,201	5.6%
Interest bearing debt	802,440	846,900	-5.2%
Straight bonds	1,046,603	1,045,413	0.1%
Convertible bond (series C) ²	0	122,576	-100.0%
Convertible bond (series F) ³	426,191	0	-
Loan-to-Value (LTV)	40%	42%	-
LTV assuming conversion	39%	39%	-
Equity ratio	46%	46%	-

¹ including advanced payments and balance of inventories

² as of January 2016 Series C Bond has been fully converted

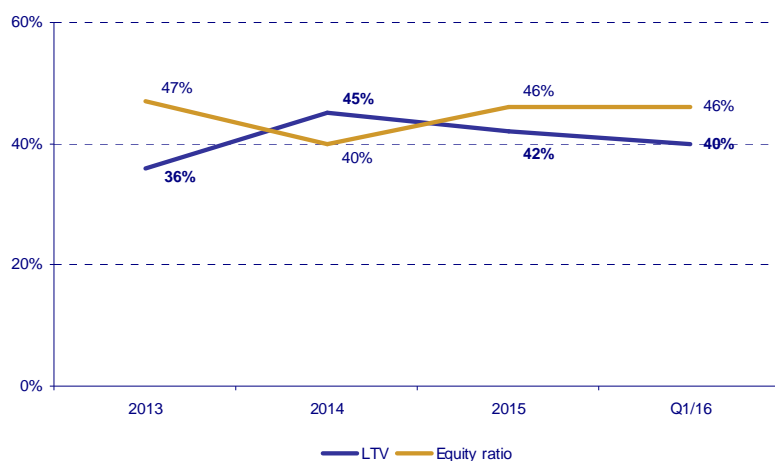
³ Series F issued in February 2016

Source First Berlin Equity Research; Company



Key balance sheet metrics remain solid, liquidity boosted by new bond The debt structure featured an LTV of 40% at the end of Q1 compared to 42% at end 2015. This is well below the 50% LTV ceiling set by the Management Board. GCP reported cash and liquid assets of €650m for the period compared to €389m at the end of 2015, while net debt remained steady at €1.6bn. Coverage ratios remained strong with a debt service coverage ratio (DSCR) and an interest coverage ratio (ICR) of 4.6x and 5.8x respectively at the end of Q1 (Q4/15: 4.7x and 6.1x respectively).

Figure 3: Balance sheet KPI developments



Source First Berlin Equity Research; Company

Strong start to 2016 has GCP on track to reach full year targets GCP reported an excellent set of first quarter numbers demonstrating its ability to translate portfolio growth into strong rental income and earnings with its scalable platform. The number of units in its portfolio expanded some 50% Y/Y to 78k at the end of Q1, while rental income climbed 54% Y/Y over the same period. The monthly annualised rental income run rate stood at €423m as of May. The company balance sheet remains strong with €650m in cash for acquisition while aforementioned debt metrics remain low. We expect rental income to grow 29% Y/Y to €430m in 2016, driven by external growth and internal growth related to aforementioned operational improvements. We maintain our Buy rating and €25 price target.



EPRA NAV VALUATION

All figures in EUR '000	2016	2017	2018	2019
Shareholder's Equity	2,449,815	2,853,776	3,386,883	4,059,989
Consolidated NAV	2,621,256	3,061,237	3,639,546	4,370,145
NAV per share (€)	17.04	19.69	22.97	26.97
Deferred taxes	278,608	327,304	388,256	468,718
Derivative financial instruments	6,995	6,995	6,995	6,995
EPRA NAV	2,906,858	3,395,536	4,034,797	4,845,858
EPRA NAV per share (€)	18.90	21.84	25.46	29.90
FFO	157,877	193,412	243,520	293,938
Revaluation results	247,845	307,622	385,040	508,289
New Equity	-	-	-	-
Total return	405,721	501,034	628,560	802,226

Return on NAV	15.9%	17.2%	18.5%	19.9%
Cost of equity	5.0%	5.0%	5.0%	5.0%
Spread	11.0%	12.3%	13.6%	14.9%

	2016	2017	2018	2019
WACC	3.1%	3.1%	3.1%	3.1%
Value creation	319,580	417,117	547,093	723,520
NPV	313,689	397,309	505,687	648,967
Dividends paid	38,375	55,257	67,694	85,232
Present value of dividends paid	37,668	52,633	62,571	76,449

Fair value calculation	
PV of total value created	1,865,652
NAV (2015)	2,172,295
Adjustments	-
Equity value	4,037,947
PV of dividends	229,321
Fair value	4,267,267
Number of shares (fully diluted)	171,594
Fair value per share (€)	25.00



INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
Rental and operating income	99,630	216,837	333,497	431,979	521,835	645,814
Revenue from sale of buildings	70,000	14,675	0	0	0	0
Revenue	169,630	231,512	333,497	431,979	521,835	645,814
Capital gains, property revaluations & other	236,846	230,969	311,131	247,845	307,622	385,040
Result from equity-accounted investees	470	94	0	0	0	0
Property expenses	-42,711	-100,175	-151,552	-198,710	-240,044	-297,074
Cost of buildings sold	-54,914	-14,425	0	0	0	0
Administration expenses	-3,339	-5,650	-7,153	-13,298	-15,578	-18,281
Operating income (EBIT)	305,982	342,325	485,923	467,815	573,835	715,499
Finance expenses	-11,320	-22,040	-25,830	-32,784	-37,326	-42,896
Other financial results	7,778	-32,664	-73	0	0	0
Pre-tax income (EBT)	302,440	287,621	460,020	435,031	536,508	672,603
Tax and deferred tax expenses	-36,388	-43,787	-66,450	-70,272	-86,259	-107,578
Minority interests	-39,777	-38,259	-35,120	-29,181	-36,020	-45,202
Hybrid note investors	0	0	-14,517	-13,496	-16,659	-20,906
Net income	226,275	205,575	343,933	322,083	397,571	498,917
Basic EPS (in €)	2.97	1.73	2.71	2.09	2.56	3.15
Diluted EPS (in €)	2.97	1.52	2.35	1.89	2.33	2.93
Adjusted EBITDA	54,243	112,009	176,521	221,698	268,300	333,042
Ratios						
Adjusted EBITDA margin on rental income	54.4%	51.7%	52.9%	51.3%	51.4%	51.6%
Tax rate	14.0%	14.0%	-5.0%	14.0%	14.0%	14.0%
Expenses as % of revenues						
Property expenses	42.9%	46.2%	45.4%	46.0%	46.0%	46.0%
Administration expenses	3.4%	2.6%	2.1%	3.1%	3.0%	2.8%
Y-Y Growth						
Rental and operating income	n.a.	117.6%	53.8%	29.5%	20.8%	23.8%
Total revenues	n.a.	36.5%	44.1%	29.5%	20.8%	23.8%
Operating income	n.a.	11.9%	41.9%	-3.7%	22.7%	24.7%
Adjusted EBITDA	n.a.	106.5%	57.6%	25.6%	21.0%	24.1%
Net income/ loss	n.a.	-9.1%	67.3%	-6.4%	23.4%	25.5%
Funds from Operations (FFO)						
Operating profit	305,982	342,325	485,923	467,815	573,835	715,499
Depreciation and amortisation	193	903	1,729	1,728	2,087	2,583
EBITDA	306,175	343,228	487,652	469,543	575,922	718,082
Capital gains, property revaluations and other	-236,846	-230,969	-311,131	-247,845	-307,622	-385,040
Result from disposal of trading properties	-15,086	-250	0	0	0	0
Adjusted EBITDA	54,243	112,009	176,521	221,698	268,300	333,042
Financial expense	-11,320	-22,040	-25,830	-32,784	-37,326	-42,896
Tax	-4,780	-13,863	-22,776	-31,038	-37,562	-46,626
FFO I	38,143	76,106	127,915	157,877	193,412	243,520



BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
Assets						
Current assets, total	248,592	401,815	627,204	917,308	744,226	770,302
Cash and cash equivalents	132,542	270,131	236,001	516,795	292,212	247,230
Traded securities at fair value though P&L	34,258	2,165	152,924	152,924	152,924	152,924
Trade and other receivables	61,843	123,705	226,402	236,701	285,937	353,871
Inventories - Trading property	19,949	5,814	11,877	10,888	13,153	16,278
Non-current assets, total	1,402,495	2,227,243	4,061,699	4,632,426	5,666,613	6,786,094
Equipment and intangible assets	4,383	7,516	9,493	10,442	11,487	12,635
Investment property	1,375,450	2,179,982	3,845,979	4,404,904	5,426,596	6,532,847
Equity accounted investees	7,354	0	0	0	0	0
Other LT assets	12,817	28,552	195,390	205,160	215,417	226,188
Deferred tax assets	2,491	11,193	10,837	11,921	13,113	14,424
Total assets	1,651,087	2,629,058	4,688,903	5,549,734	6,410,838	7,556,397
Shareholders' equity & debt						
Current liabilities, total	111,277	153,266	277,317	289,905	348,568	429,193
Short-term debt	10,563	5,792	54,676	16,467	23,607	33,704
Trade and other payables	92,357	128,837	190,358	239,541	289,368	358,117
Other current liabilities	8,357	18,637	32,283	33,897	35,592	37,372
Long-term liabilities, total	771,885	1,434,142	2,239,291	2,638,573	3,001,034	3,487,658
Long-term debt	461,753	537,217	792,224	823,332	1,180,367	1,685,215
Convertible and straight bonds	194,676	716,832	1,167,989	1,495,294	1,450,306	1,369,327
Deferred taxes	80,169	141,003	239,374	278,608	327,304	388,256
Other LT liabilities	35,287	39,090	39,704	41,339	43,057	44,860
Minority interests	63,001	90,736	142,260	171,441	207,461	252,663
Shareholders' equity	704,924	950,914	2,030,035	2,449,815	2,853,776	3,386,883
Total consolidated equity and debt	1,651,087	2,629,058	4,688,903	5,549,734	6,410,838	7,556,397
Ratios						
Current ratio (x)	2.23	2.62	2.26	3.16	2.14	1.79
Equity ratio	46.5%	39.6%	46.3%	47.2%	47.8%	48.2%
EPRA NAV ('000)	861,926	1,439,386	2,544,347	3,356,739	3,800,429	4,358,712
Net debt ('000)	500,192	987,545	1,625,964	1,665,374	2,209,145	2,688,092
Financial leverage	71.0%	103.9%	80.1%	68.0%	77.4%	79.4%
Loan-to-value	36.2%	45.1%	42.1%	37.7%	40.6%	41.0%
Return on equity (ROE)	34.6%	23.4%	18.1%	13.9%	14.7%	15.5%



CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
Net income	266,052	243,834	393,570	364,760	450,250	565,025
Depreciation and amortisation	193	903	1,729	1,728	2,087	2,583
Profit from investments in equity accounted investee	-470	-94	0	0	0	0
Change in fair value of investment properties	-236,846	-230,968	-311,131	-247,845	-307,622	-385,040
Net finance expenses	3,542	54,704	25,903	32,784	37,326	42,896
Tax result	36,388	43,787	66,450	70,272	86,259	107,578
Others	0	171	753	0	0	0
Operating cash flow	68,859	112,337	177,274	221,698	268,300	333,042
Inventories - trading properties	0	14,134	-943	989	-2,265	-3,125
Trade & other receivables	-14,169	-39,030	-24,825	-10,299	-49,236	-67,934
Trade & other payables	7,463	31,359	20,234	49,183	49,827	68,749
Provisions for other liabilities	4,028	5,875	4,506	2,166	2,220	2,271
Tax paid	-4,780	-10,791	-18,798	-31,038	-37,562	-46,626
Net cash flow from operating activities	61,401	113,884	157,448	232,700	231,284	286,377
Investment in fixed/intangible assets	-975	-1,847	-3,680	-2,677	-3,132	-3,732
Investments and acquisitions of investment property	-309,468	-349,944	-406,475	-311,080	-714,070	-721,211
Acquisition of subsidiaries	-72,350	-38,561	-445,922	0	0	0
Proceeds from investments in financial assets	-28,070	62,449	-358,971	-9,770	-10,258	-10,771
Cash flow from investing	-410,863	-327,903	-1,215,048	-323,527	-727,460	-735,713
Debt financing, net	219,917	393,143	440,130	442,780	364,176	514,944
Equity financing, net	201,546	0	639,939	0	0	0
Other financing activities	-7,562	-11,648	-23,735	-38,375	-55,257	-67,694
Net paid financing expenses	-12,874	-29,887	-32,864	-32,784	-37,326	-42,896
Cash flow from financing	401,027	351,608	1,023,470	371,621	271,592	404,354
Net cash flows	51,565	137,589	-34,130	280,794	-224,583	-44,982
Cash, start of the year	80,977	132,542	270,131	236,001	516,795	292,212
Cash, end of the year	132,542	270,131	236,001	516,795	292,212	247,230
Adjusted EBITDA/share (in €)	0.71	0.94	1.27	1.44	1.73	2.10
FFO I	38,143	76,106	127,915	157,877	193,412	243,520
FFO/share (in €)	0.50	0.66	0.89	1.03	1.24	1.54
Y-Y Growth						
Operating cash flow	n.a.	85.5%	38.3%	47.8%	-0.6%	23.8%
Adjusted EBITDA/share	n.a.	32.6%	33.9%	13.9%	19.7%	21.8%
FFO I	n.a.	99.5%	68.1%	23.4%	22.5%	25.9%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	21 January 2013	€4.37	Buy	€14.30
2...11	↓	↓	↓	↓
12	19 August 2015	€17.23	Buy	€24.00
13	1 December 2015	€19.50	Buy	€25.00
14	24 March 2016	€19.90	Buy	€25.00
15	Today	€19.92	Buy	€25.00

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First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG] and the German Ordinance on the Analysis of Financial Instruments [FinAnV], into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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PRICE TARGET DATES

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

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

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:

STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

BUY: An expected favourable price trend of more than 25% percent.

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

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

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UPDATES

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