

# GRAND CITY Properties S.A.

Luxembourg / Financial Services  
 Frankfurt  
 Bloomberg: GYC GR  
 ISIN: LU0775917882

Q2/17  
 Results

**RATING**  
**BUY**

**PRICE TARGET**  
**€ 26.00**

Return Potential 42.7%  
 Risk Rating Medium

## STRONG Q2 RESULTS CONFIRM ATTRACTIVE FUNDAMENTALS

Second quarter results confirm our view that Grand City Properties will continue to perform in a market environment increasingly driven by internal growth. Rental income and FFO I improved Y/Y while revaluations also continued to drive NAV growth. In our view, the company is well positioned for further growth thanks to a portfolio that harbours operational upside and a network that will continue to provide select acquisition opportunities. Our updated valuation model yields a price target of €26.00 (previously €25.10). Our rating remains Buy.

**Share price fails to reflect operating performance** Although external growth has slowed compared to the high levels of the previous years (2014-16 unit CAGR +47%), operations continue to deliver strong earnings and NAV growth. We believe the GCP portfolio is embedded with further FFO I and revaluation growth potential. We target FFOPS I (+5%) and NAVPS (+11%) growth in 2017. Despite strong operating performance in H1/17 (2.0% LFL in-place rental and 2.3% LFL occupancy growth) and ongoing NAVPS growth (figure 4 overleaf), the stock currently trades some 21% below projected 2017E NAV. This is well below the peer mean (-4.6%), although the company's FFO I and dividend yields top peers. We attribute much of the lacklustre share price development to the optics of lower unit growth compared to the past years and expect the pronounced discount to NAV to erode once investors adjust to the pace of internal growth.

**Strong trends in top metropolitan areas** In our view, the German residential property market continues to benefit from strong excess demand driving a widening supply / demand gap. The inflow of refugees has fuelled demand for affordable housing, while new build is unable to keep up. Construction activity suffers from low incentive to pick up the pace, given unattractive regulated rent levels in the affordable segment. Moreover, the influx of young suburbanites into more vibrant urban hubs is causing metropolitan areas to swell.

(p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Rental income (€m)	216.84	333.50	442.67 <sup>1</sup>	483.07	526.29	564.09
Y/Y growth	117.7%	53.8%	32.7%	9.1%	8.9%	7.2%
Adj. EBITDA (€m)	112.01	177.27	224.73	249.75	271.40	290.94
Net income	243.83	393.57	653.11	459.40	482.37	512.41
EPS (diluted) (€)	1.52	2.35	3.25	2.24	2.35	2.50
EPRA NAV (€m)	1348.65	2402.09	3208.45	3787.43	4251.00	4747.84
DPS (€)	0.20	0.25	0.68	0.69	0.76	0.87
FFO I (€m)	76.11	128.04	160.12	175.02	195.20	211.29
FFOPS I (€)	0.66	1.01	1.05	1.10	1.18	1.25
Liquid assets (€m)	272.30	388.93	630.27	529.34	534.09	555.20

<sup>1</sup> includes €7m from trading property disposal

### 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 is a specialist real estate firm focused on investing in and managing value-add opportunities in the German real estate market. GCP's portfolio is primarily located in densely populated areas. The overarching strategy is to improve the portfolio through targeted modernisation and intensive tenant management and thus create value by subsequently raising occupancy and rental levels.

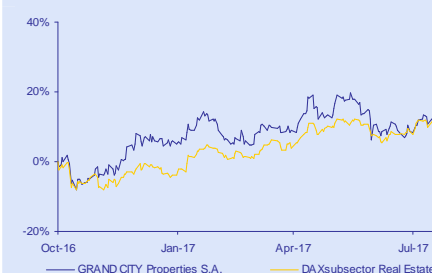
### MARKET DATA

As of 21 Aug 2017

Closing Price	€ 18.22
Shares outstanding	164.79m
Market Capitalisation	€ 3001.65m
52-week Range	€ 14.73 / 20.25
Avg. Volume (12 Months)	246,299

Multiples	2016	2017E	2018E
P/FFO I	17.4	16.6	15.5
P/EPRA NAV	0.9	0.8	0.7
FFO I/Yield	5.8%	6.0%	6.5%
Div. Yield	3.7%	3.8%	4.2%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2017

Liquid Assets	€ 454.30m
Current Assets	€ 942.20m
EPRA NAV <sup>1</sup>	€ 3,529.80m
Total Assets	€ 6,677.57m
Current Liabilities	€ 475.69m
Total Equity	€ 3,370.60m

<sup>1</sup> including perpetual notes

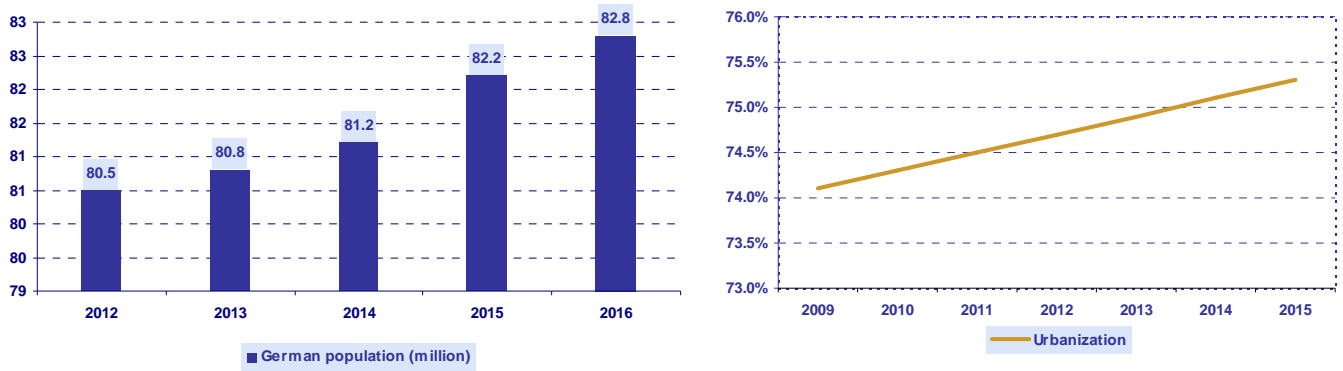
### SHAREHOLDERS

Edolaxia Ltd.	36.1%
FMR LLC	4.6%
Merrill Lynch Intl	2.6%
Odey Asset Mgmt	2.3%
Free Float	54.5%



This bodes well for GCP, which has a well diversified portfolio including good exposure to Berlin (Q2/17: 20%) of which some 68% of the units are located in central districts.

**Figure 1: German population and urbanisation developments**



Source: First Berlin Equity Research, Destatis, Eurostat

Against this backdrop, the sector is transitioning from external to internal growth, due to a shrinking number of suitable acquisition targets in the wake of yield compression. That said, we believe the residential sector will continue to spur solid earnings growth and good cash flow visibility for the major players with quality portfolios.

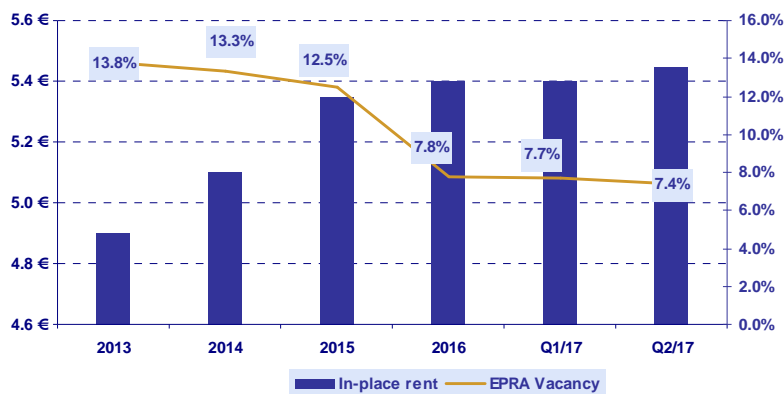


### GCP PRIMED TO PERFORM IN TRANSFORMED MARKET

**Value-add strategy distinguishes in changing market** GCP's Buy and Hold strategy is focused on the purchase of value-add residential portfolios located in densely populated metropolitan locations that offer good rent revisionary potential and revaluation upside with targeted modernisation investments. This strategy has spurred strong rental income (RI) and earnings growth alongside unit expansion over the years.

Grand City has a growing turnaround track record for increasing in-place rent levels in its portfolio while compressing vacancy rates. The company began reporting quarterly LFL (like-for-like) rent and occupancy growth updates in Q4/16, which should help investors track operational performance. At the end of H1, LFL in-place rent growth was reported at 2.0% alongside 2.3% LFL occupancy growth reduction. EPRA vacancy stood at 7.4% (Q1/17: 7.7%) and in-place rent was €5.45m<sup>2</sup> (Q1/17: €5.40m<sup>2</sup>).

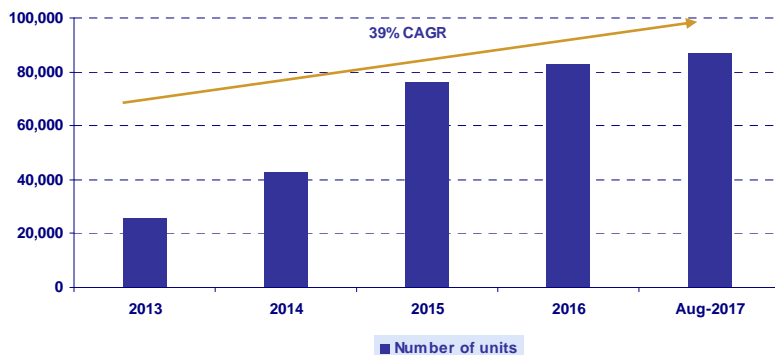
**Figure 2: EPRA vacancy and in-place rent developments**



Source: First Berlin Equity Research; Company

Since 2013, the company has grown its portfolio some 235% to 87,000 units as of August 2017. The strongest absolute growth occurred in 2015 with the addition of 33,000 units equal to 77% Y/Y growth. External growth has been gated more recently compared to the high levels witnessed in the prior years (figure 3). This is due to a scarcity of suitable assets for the right value. That said, we appreciate management's disciplined acquisition approach in a changing market.

**Figure 3: Unit growth**



Source: First Berlin Equity Research; Company



The portfolio expansion has translated into strong operational results with FFO I climbing steadily Y/Y (table 1). We believe the residential portfolio contains further operational upside (30% net rent as of Q2/17) through rent and vacancy optimisation. We expect this to be the primary earnings and value driver over the near-term, given our assumption of modest external growth (10,500 units over the next two years). Q2 results underscore this potential with FFO I outpacing the prior year level by 12% Y/Y.

**Table 1: Unit and FFO I developments**

	2013	2014	2015	2016	Aug-2017	CAGR
Number of units	26,000	43,000	76,000	83,000	87,000	39%
Rental income (€m)	99,630	216,837	333,497	435,668	504,000	56%
FFO I (€m)	38,143	76,106	128,040	160,120	177,000	52%
Growth	233%	100%	68%	25%	11%	-
FFO I per unit (€)	1,467	1,770	1,685	1,929	2,034	9%

Source: First Berlin Equity Research; Company

**Grand City's financing ability is ascendant** GCP stands out from its peers with its financial flexibility. Management have been very active in optimising the debt portfolio the past two years (table 3 overleaf), which is reflected in improving financing costs. Total cost of debt (CoD) has been trimmed down to 1.5% as of Q2/17 compared to 2.0% in FY/15 and last year. This ranks second among its peers (table 2). The company also boasts BBB+ / Baa2 corporate ratings from S&P and Moody's respectively.

**Table 2: Financial profiles of Grand City and peers (YTD)**

	Adler Real Estate	ADO Properties	Deutsche Wohnen	Grand City Properties	LEG Immobilien	TAG Immobilien	Vonovia
LTV	57.8%	33.8%	36.9%	35.0%	45.3%	57.5%	43.2%
CoD	3.66%	2.10%	1.40%	1.50%	1.95%	1.70%	2.10%
Maturity (years)	n.a.	5.0	8.0	7.5	9.5	9.1	6.7
Net debt /EBITDA	17.5x	11.4x	8.9x	7.9x	10.1x	12.5x	10.5x
Moody's rating	n.a.	n.a.	A3	Baa2	Baa1	n.a.	n.a.
S&P rating	BB-	n.a.	A-	BBB+	n.a.	n.a.	BBB+

Source: First Berlin Equity Research, Grandcity, Adler, ADO, Deutsche Wohnen, LEG, TAG, Vonovia

Grand City recently raised €600m as part of its newly launched EMTN (Euro Medium Term Note) program. The new senior unsecured 9-year notes have a 1.375% coupon and will be listed on the regulated market of the Irish Stock Exchange. Some €321m of the proceeds were used to buy back the 2.00% Series D notes.

The Series G issuance extends a history of excellent access to the capital markets that has resulted in a host of opportunistic equity and debt issues allowing management to constantly optimise its capital structure. Recent activities comprise a broad mix of instruments from perpetual notes, corporate and convertible bonds, to bank loans and now the €1.5bn EMTN program. We expect management to remain proactive in fine tuning the financing structure as long as the favourable environment persists. In our view, GCP founder and Advisory Board Chairman Yakir Gabay has been particularly instrumental in these activities due to his dual in-depth knowledge of the property and capital markets. In our view, such deep expertise in both fields is rare.

**Table 3: Capital market activity**

Jul-17	Issuance of Series G 9 year straight bonds €600m under the EMTN programme, coupon of 1.375% p.a
Jul-17	Established €1.5bn Euro Medium Term Note (EMTN) Programme
Jul-17	Equity capital increase of €198m at €18 per share
Sep-16	Issuance of €200m perpetual notes, coupon of 2.75% p.a.
Feb-16	Issuance of Series F, 2022 convertible bonds of €450m, coupon of 0.25% p.a
Jan-16	Completion of the conversion of Series C convertible bonds (€275m)
Sep-15	Tap issuance of €150m of 10 year straight bond to an aggregate nominal amount of €550m
Sep-15	Equity capital increase of €151m at €15.9 per share
Jul-15	Tap issuance of perpetual notes of additional €100m
Apr-15	Issuance of Series E, 10-year straight bond of €400m with a coupon of 1.5% p.a
Mar-15	Tap issuance of perpetual notes of additional €250m
Feb-15	Issuance of €150m of perpetual notes, coupon 3.75%
Oct-14	Redemption of straight bonds of €350m. Issuance of 7-year straight bond of €500m, coupon of 2% p.a.
Jun-14	Tap issuance of convertible bonds with gross proceeds of €140m
Apr-14	Tap issuance of existing straight bonds with gross proceeds of €160m
Feb-14	Issuance of Series C, 5-year convertible bonds of €150m and a coupon of 1.50% p.a
Dec-13	Equity capital increase of €175m at €6.5 per share
Oct-13	Full conversion of €100m Series A convertible bonds into equity
Jul-13	Issuance of Series B, 7-year straight bonds of €200m with a coupon of 6.25% p.a.
Feb-13	Equity capital increase of €36m at €4.5 per share
Oct-12	Issuance of Series A, 5-year convertible bonds of €100m with a coupon of 8% p.a.
Jul-12	Equity capital increase of €15m at €2.8 per share

Source: First Berlin Equity Research; Company

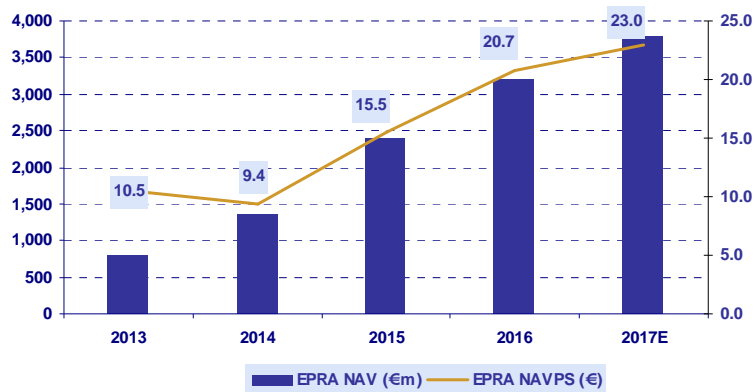
The LTV stood at 35% at the end of the second quarter. The maximum LTV target is at 45% leaving plenty of headroom for expansion. Management have also set their sights on a long term A- rating from S&P.



## SHARE TRADING AT ATTRACTIVE LEVELS

In our view, the relatively lacklustre performance of the company's share price (down ~8.5% the past twelve months) fails to reflect the strong operational performance over the same time frame. Operational results continue to drive increasing NAV as shown below.

**Figure 4: NAV and NAVPS developments (including hybrid notes)**



Source: First Berlin Equity Research; Company

We attribute much of the weak share price performance to the slowdown in external growth, although this still tops several key rivals in the sector. Following the high unit growth of the past years, we believe the market needs to recalibrate expectations to the current growth environment defined by a scarcity of the right assets at palatable pricing. Aside from this, the uplisting to the German Prime Standard of the German Stock Exchange and the recent adoption into the SDAX index of the Deutsche Börse has improved transparency and should be appreciated by investors.



**Unwarranted discount to peers** The Grand City share looks quite attractive compared to its chief rivals in the German property market. The sector currently trades at a 4.6% a discount to NAV, a 4.4% FFO I yield, and a 2.7% dividend yield on 2017 street consensus forecasts. On our figures, Grand City's FFO yield for 2017 and 2018 is well above the mean values of its peers. The company also trades at a much higher dividend yield than the peer average, and only TAG Immobilien AG offers a higher dividend yield than GCP.

**Table 4: Peer group**

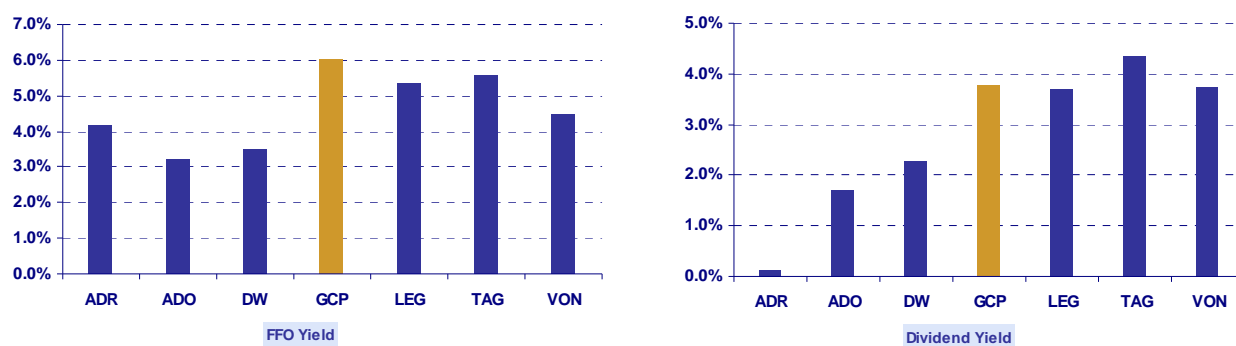
	Market			EPRA NAV (€m)			FFOPS (€)			Dividend (€)		
	Price (€)	cap (€m)	SO (m)	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E
Adler Real Estate	13.61	786	58	1,069	1,214	1,370	0.47	0.57	0.71	0.00	0.02	0.05
ADO Properties	38.82	1,750	44	1,591	1,938	2,293	1.11	1.25	1.41	0.45	0.66	0.77
Deutsche Wohnen	34.93	12,355	355	10,017	12,195	13,508	1.14	1.22	1.29	0.74	0.80	0.85
Grandcity Properties	18.22	2,984	165	3,208	3,787	4,251	1.05	1.10	1.18	0.68	0.69	0.76
LEG Immobilien AG	82.11	5,218	63	4,641	4,751	5,250	4.26	4.39	4.72	2.76	3.04	3.28
TAG Immobilien AG	14.03	2,055	147	1,642	1,671	2,047	0.72	0.78	0.86	0.57	0.61	0.64
Vonovia SE	35.22	17,158	466	17,047	19,092	18,539	1.63	1.58	1.99	1.12	1.32	1.43

	NAVPS (€)			EPRA NAV Premium / Discount			FFO yield			Dividend yield		
	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E
Adler	18.6	21.1	23.8	-26.8%	-35.5%	-42.9%	3.5%	4.2%	5.2%	0.0%	0.1%	0.4%
ADO Properties	36.1	43.9	52.0	7.6%	-11.7%	-25.3%	2.9%	3.2%	3.6%	1.2%	1.7%	2.0%
Deutsche Wohnen	28.2	34.4	38.1	23.7%	1.6%	-8.3%	3.3%	3.5%	3.7%	2.1%	2.3%	2.4%
LEG Immobilien AG	67.8	75.2	83.1	21.0%	9.2%	-1.2%	5.2%	5.3%	5.7%	3.4%	3.7%	4.0%
TAG Immobilien AG	11.2	11.4	14.0	25.2%	23.0%	0.4%	5.1%	5.6%	6.1%	4.1%	4.3%	4.6%
Vonovia SE	36.6	41.0	39.8	-3.7%	-14.0%	-11.5%	4.6%	4.5%	5.7%	3.2%	3.7%	4.1%
<b>Mean</b>	<b>33.1</b>	<b>37.8</b>	<b>41.8</b>	<b>7.8%</b>	<b>-4.6%</b>	<b>-14.8%</b>	<b>4.1%</b>	<b>4.4%</b>	<b>5.0%</b>	<b>2.3%</b>	<b>2.7%</b>	<b>2.9%</b>
<b>Grand City (excl hybrid)</b>	<b>16.4</b>	<b>18.9</b>	<b>21.5</b>	<b>11.1%</b>	<b>-3.8%</b>	<b>-15.4%</b>	<b>5.8%</b>	<b>6.0%</b>	<b>6.5%</b>	<b>3.7%</b>	<b>3.8%</b>	<b>4.2%</b>
<b>Grand City (incl hybrid)</b>	<b>20.7</b>	<b>23.0</b>	<b>25.5</b>	<b>-12.0%</b>	<b>-20.7%</b>	<b>-28.7%</b>	<b>5.8%</b>	<b>6.0%</b>	<b>6.5%</b>	<b>3.7%</b>	<b>3.8%</b>	<b>4.2%</b>

Source: First Berlin Equity Research; Company, Bloomberg

Investors currently like the German residential property sector for its low cash flow volatility and sustainable earnings growth. Consequently, it is often viewed as a type of risk-free asset class in today's low interest rate environment. Against this background, we regard GCP as particularly attractive with its high FFO I and dividend yields.

**Figure 5: Comparative 2017E FFO and dividend yields (YTD)**



Source: First Berlin Equity Research; Bloomberg



## Q2 RESULTS CONFIRM COMPANY STRENGTHS

Table 5: Results vs forecasts

in € '000	Q2/17	Q2/17E	delta	Q2/16	delta	H1/17	H1/16	delta
Rental income	121,426	118,520	2.5%	108,053	12.4%	239,383	208,804	14.6%
Adjusted EBITDA	61,375	60,390	1.6%	53,261	15.2%	120,905	107,268	12.7%
margin	50.5%	51.0%	-	49.3%	-	50.5%	51.4%	-
FFO I	43,172	42,667	1.2%	38,426	12.4%	85,186	76,136	11.9%
FFOPS I <sup>1</sup> (€)	0.24	0.24	1.2%	0.22	9.1%	0.47	0.44	6.8%

<sup>1</sup> after perpetual note attribution

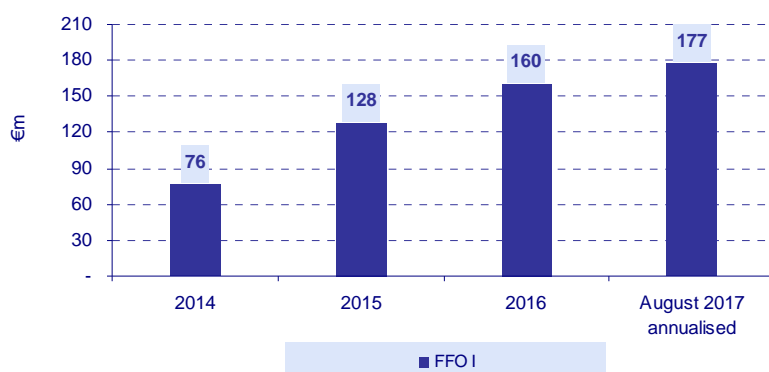
Source: First Berlin Equity Research; Company

**Operational performance and portfolio growth drive rental income** GCP reported rental and operating income (RI) of €121m for the three month period, which topped our estimate (FBe: €119m). The figure grew 12.4% Y/Y and 2.9% Q/Q. The increase can be traced to the larger portfolio and operational improvements in its existing properties through rent and occupancy increases. On a six month basis, RI climbed some 14.6% Y/Y to €239m, whereas total revenue reached €240m including the sale of inventories. The portfolio contains 87k units as of August compared to 83k at the end of 2016. As of August 2017, the monthly annualised run rate for net rent stood at €338m—continuing a positive trend.

Adjusted EBITDA, which reflects the recurring operational profit excluding capital gains and revaluation effects, rose 15.2% in Q2/17 to €61m (Q2/16: €53m; FBe: €60m). The increase is traced to external growth realised through selective acquisitions and the improving occupancy rates and rent levels. The capital gains, property revaluations and other income line item totalled €114m in the second quarter (Q2/16: €310m) and €168m at the six month mark (H1/16: €379m). Net income (NI) grew by 14% for the period to €103m (Q2/16: €91m) fuelled by top line growth, revaluation uplift, and economies of scale. On a six month basis, NI totalled €225m.

FFO I, which corresponds to bottom line profits, increased some 12.4% during Q2 to €43m compared to €38m in the prior year period, thanks to the strong adjusted EBITDA growth and excellent financing conditions owing to the low cost of debt. On a six month basis, FFO I increased 11.9% Y/Y to €85m equal to €0.47 per share. This resulted in an annualised FFO I yield of 6.4%.

Figure 6: FFO I development



Source: First Berlin Equity Research; Company



**Table 6: Financial highlights**

in €'000	Q2/17	2016	Delta
Cash & liquid assets	454,770	631,904	-28.0%
Investment property <sup>1</sup>	5,424,734	4,795,757	13.1%
Total equity	3,370,643	3,065,064	10.0%
EPRA NAV incl. hybrid notes	3,529,764	3,208,453	10.0%
EPRA NAV	2,863,893	2,541,060	12.7%
Interest bearing debt	986,771	937,410	5.3%
Straight bonds	1,052,627	1,050,078	0.2%
Convertible bond (series F)	429,969	427,909	-
Loan-to-Value (LTV)	35%	35%	-
Equity ratio	50%	50%	-

<sup>1</sup> including inventories-trading property

Source: First Berlin Equity Research; Company

**Balance sheet metrics stable over three month period** GCP reported cash and liquid assets of €455m for the period ended 30 June compared to €632m at the end of 2016, while net debt remained steady at €2.0bn vs €1.8bn at the end of 2016. The debt structure featured an LTV of 35%, which was unchanged compared to end 2016. This remains well below the 45% internal limit set by the Management Board. Coverage ratios remained solid with a debt service coverage ratio (DSCR) and an interest coverage ratio (ICR) of 5.0x and 6.2x respectively at the end of Q2. In our view, the ample cash position and attractive debt structure, which features a 1.5% cost of debt and seven plus year maturity, positions the company well for opportunistic growth.

**Table 7: Cash flow KPIs**

in EUR '000	Q2/17	Q2/16	Delta
Operating cash flow	99,051	95,270	4.0%
Cash flow from investment activities	-381,664	-298,501	27.9%
Cash flow from financing activities	152,448	341,921	-55.4%
Net cash flow	-130,165	138,690	-

Source: First Berlin Equity Research; Company

The increase in operating cash flow stems from the Y/Y portfolio growth and associated rise in rental and operating income as well as the operational LFL improvements. Cash flow from investing picked up, thanks to the ability to source attractive acquisitions that meet strict investment discipline and contain sufficient value upside. The variation in cash flow from financing is largely attributable to capital market activities in Q1/16 that included the issuance of Series F convertible bonds for €450m.

**Table 8: Changes to our forecasts**

in €'000	2017E			2018E		
	Old	New	% change	Old	New	% change
Rental income	478,350	483,073	1.0%	520,482	526,288	1.1%
Adjusted EBITDA	245,942	249,749	1.5%	268,409	271,403	1.1%
margin	51.4%	51.7%	-	51.6%	51.6%	-
FFO I	172,615	175,022	1.4%	193,692	195,199	0.8%

Source: First Berlin Equity Research

**Adjustments to forecasts** We have moved our forecasts slightly higher to reflect the half year performance and the improving operating KPIs. On Q2 results conference call, management indicated it has a €500m pipeline diversified across the major regions to support external growth opportunities. The company reported monthly annualised run rates of €338m for net rent, €253m for adjusted EBITDA and €77m for FFO for August. This gives us a high degree of confidence in our 2017 targets.



## EPRA NAV VALUATION

Our updated discounted EPRA NAV valuation model yields a new price target of €26.00 (previously: €25.10). This corresponds to a total return of 46.5% including the dividend yield. With low transparency concerns having been cleared away, risks to our price target include a shift in favourable supply / demand dynamics presently driving occupancy and rent metrics, a slowdown in the wage growth currently providing tailwinds in Germany, and an erosion of the safe-haven FFO I yield play to the German 10 year Bund.

All figures in EUR '000	2017E	2018E	2019E
Shareholders' equity (incl. perpetual notes)	3,397,973	3,809,288	4,251,389
Derivative financial instruments	11,536	11,536	11,536
Deferred tax liabilities	377,918	430,174	484,919
EPRA NAV	3,787,427	4,250,998	4,747,843
<b>EPRA NAV per share (€)</b>	<b>23.0</b>	<b>25.5</b>	<b>27.8</b>
FFO I	175,022	195,199	211,295
Revaluation results	328,087	330,106	345,829
New Equity	198,000	-	-
<b>Total return</b>	<b>701,109</b>	<b>525,305</b>	<b>557,124</b>

EPRA NAV	3,787,427	4,250,998	4,747,843
Return on NAV	22%	14%	13%
Cost of equity	5.0%	5.0%	5.0%
<b>Spread (percentage points)</b>	<b>16.9%</b>	<b>8.9%</b>	<b>8.2%</b>
Value creation	640,073	379,091	387,126
NPV	633,259	363,954	360,666
Dividends paid	112,468	113,765	126,879
Present value of dividends paid	111,271	109,222	118,207

Fair value calculation	
PV of total value created	1,357,880
NAV (FY16)	3,065,064
Equity value	4,422,944
PV of dividends	338,700
<b>Fair value</b>	<b>4,761,644</b>
Number of shares (fully diluted)	182,827
<b>Fair value per share (€)</b>	<b>26.00</b>

Valuation metrics	2017E	2018E	2019E
Price target (€)	26.00	26.00	26.00
Share price (€)	18.22	18.22	18.22
Return potential	42.7%	42.7%	42.7%
Dividend yield	3.8%	4.2%	4.7%
<b>Total return potential</b>	<b>46.5%</b>	<b>46.9%</b>	<b>47.4%</b>
NAV discount / premium (share price)	-20.7%	-28.7%	-34.4%
FFOPS I yield	6.0%	6.5%	6.9%



## COMPANY PROFILE

Founded in 2011, Grand City Properties specialises in purchasing, re-developing, optimizing and re-positioning residential real estate properties in Germany. Operations are built around an experienced team of experts supported by high end proprietary IT-systems and infrastructure allowing the company to capitalise on the positive trends in the German real estate market. With a focus on fundamentally strong, income producing assets, Grand City generates significant value-add by turning around under-rented objects into portfolios with sustainable profits and stable cash flows. Yakir Gabay is the major shareholder via the Aroundtown stake. The company is based in Luxembourg and administrates an 87,000 unit portfolio as of August 2017.



## INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E
<b>Rental and operating income</b>	<b>216,837</b>	<b>333,497</b>	<b>435,668</b>	<b>483,073</b>	<b>526,288</b>
Revenue from sale of buildings	14,675	0	7,002	0	0
<b>Revenue</b>	<b>231,512</b>	<b>333,497</b>	<b>442,670</b>	<b>483,073</b>	<b>526,288</b>
Capital gains, property revaluations & other	230,969	311,131	598,280	328,087	330,106
Result from equity-accounted investees	94	0	541	8,411	9,522
Property expenses	-100,175	-151,552	-204,108	-222,214	-242,092
Cost of buildings sold	-14,425	0	-4,971	0	0
Administration expenses	-5,650	-7,153	-9,550	-13,043	-14,898
<b>Operating income (EBIT)</b>	<b>342,325</b>	<b>485,923</b>	<b>822,862</b>	<b>584,314</b>	<b>608,926</b>
Finance expenses	-22,040	-25,830	-36,319	-38,013	-36,308
Other financial results	-32,664	-73	-11,121	0	0
<b>Pre-tax income (EBT)</b>	<b>287,621</b>	<b>460,020</b>	<b>775,422</b>	<b>546,301</b>	<b>572,618</b>
Tax and deferred tax expenses	-43,787	-66,450	-122,317	-86,901	-90,252
Minority interests	-38,259	-35,120	-88,013	-36,752	-38,589
Hybrid note investors	0	-14,517	-20,272	-16,480	-17,304
<b>Net income</b>	<b>205,575</b>	<b>343,933</b>	<b>544,820</b>	<b>406,167</b>	<b>426,472</b>
Basic EPS (in €)	1.73	2.71	3.56	2.55	2.57
Diluted EPS (in €)	1.52	2.35	3.25	2.24	2.35
<b>Adjusted EBITDA</b>	<b>112,009</b>	<b>177,274</b>	<b>224,729</b>	<b>249,749</b>	<b>271,403</b>
<b>Ratios</b>					
Adjusted EBITDA margin on rental income	51.7%	53.2%	51.6%	51.7%	51.6%
Tax rate	12.4%	12.8%	11.9%	14.0%	14.0%
<b>Expenses as % of revenues</b>					
Property expenses	46.2%	45.4%	46.8%	46.0%	46.0%
Administration expenses	2.6%	2.1%	2.2%	2.7%	2.8%
<b>Y-Y Growth</b>					
Rental and operating income	117.6%	53.8%	30.6%	10.9%	8.9%
Total revenues	36.5%	44.1%	32.7%	9.1%	8.9%
Operating income	11.9%	41.9%	69.3%	-29.0%	4.2%
Adjusted EBITDA	106.5%	58.3%	26.8%	11.1%	8.7%
Net income/ loss	-9.1%	67.3%	58.4%	-25.4%	5.0%
<b>Funds from Operations (FFO)</b>					
<b>Operating profit</b>	<b>342,325</b>	<b>485,923</b>	<b>822,862</b>	<b>584,314</b>	<b>608,926</b>
Depreciation and amortisation	903	1,729	1,695	1,932	2,105
<b>EBITDA</b>	<b>343,228</b>	<b>487,652</b>	<b>824,557</b>	<b>586,246</b>	<b>611,031</b>
Capital gains, property revaluations and other	-230,969	-311,131	-598,280	-328,087	-330,106
Result from disposal of trading properties	-250	0	-2,031	0	0
Others	0	753	483	-8,411	-9,522
<b>Adjusted EBITDA</b>	<b>112,009</b>	<b>177,274</b>	<b>224,729</b>	<b>249,749</b>	<b>271,403</b>
Financial expense	-22,040	-25,830	-36,319	-38,013	-36,308
Tax	-13,863	-22,776	-26,799	-34,965	-37,996
Minorities	0	-628	-1,491	-1,748	-1,900
<b>FFO I</b>	<b>76,106</b>	<b>128,040</b>	<b>160,120</b>	<b>175,022</b>	<b>195,199</b>
CapEx	-33,804	-56,325	-67,721	-73,921	-80,371
<b>AFFO</b>	<b>42,302</b>	<b>71,715</b>	<b>92,399</b>	<b>101,101</b>	<b>114,828</b>



## BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E
<b>Assets</b>					
<b>Current assets, total</b>	<b>401,815</b>	<b>627,204</b>	<b>1,027,702</b>	<b>956,705</b>	<b>986,224</b>
Cash and cash equivalents	270,131	236,001	448,873	347,940	352,691
Traded securities at fair value though P&L	2,165	152,924	181,397	181,397	181,397
Trade and other receivables	123,705	226,402	219,668	264,697	288,377
Inventories - Trading property	5,814	11,877	27,270	12,176	13,265
Assets held for sale	0	0	150,494	150,494	150,494
<b>Non-current assets, total</b>	<b>2,227,243</b>	<b>4,061,699</b>	<b>5,126,031</b>	<b>6,029,617</b>	<b>6,580,528</b>
Equipment and intangible assets	7,516	9,493	15,833	17,416	19,158
Investment property	2,179,982	3,845,979	4,768,487	5,650,156	6,177,212
Equity accounted investees	0	0	117,785	126,196	135,718
Other LT assets	28,552	195,390	209,397	219,867	230,860
Deferred tax assets	11,193	10,837	14,529	15,982	17,580
<b>Total assets</b>	<b>2,629,058</b>	<b>4,688,903</b>	<b>6,153,733</b>	<b>6,986,321</b>	<b>7,566,752</b>
<b>Shareholders' equity &amp; debt</b>					
<b>Current liabilities, total</b>	<b>153,266</b>	<b>277,317</b>	<b>338,325</b>	<b>350,699</b>	<b>380,247</b>
Short-term debt	5,792	54,676	29,236	22,360	24,921
Trade and other payables	128,837	190,358	251,503	267,874	291,837
Other current liabilities	18,637	32,283	57,586	60,465	63,489
<b>Long-term liabilities, total</b>	<b>1,434,142</b>	<b>2,239,291</b>	<b>2,750,344</b>	<b>3,004,231</b>	<b>3,105,210</b>
Long-term debt	537,217	792,224	896,577	1,118,010	1,246,027
Convertible and straight bonds	716,832	1,167,989	1,477,987	1,456,592	1,375,289
Deferred taxes	141,003	239,374	325,982	377,918	430,174
Other LT liabilities	39,090	39,704	49,798	51,711	53,720
Minority interests	90,736	142,260	196,666	233,418	272,007
<b>Shareholders' equity</b>	<b>950,914</b>	<b>2,030,035</b>	<b>2,868,398</b>	<b>3,397,973</b>	<b>3,809,288</b>
<b>Total consolidated equity and debt</b>	<b>2,629,058</b>	<b>4,688,903</b>	<b>6,153,733</b>	<b>6,986,321</b>	<b>7,566,752</b>
<b>Ratios</b>					
Current ratio (x)	2.62	2.26	3.04	2.73	2.59
Equity ratio	39.6%	46.3%	49.8%	52.0%	53.9%
EPRA NAV ('000)	1,348,650	2,402,087	3,208,453	3,787,427	4,250,998
Net debt ('000)	987,545	1,625,964	1,783,493	2,067,625	2,112,149
Financial leverage	103.9%	80.1%	62.2%	60.8%	55.4%
Loan-to-value (LTV)	45.3%	41.9%	34.9%	34.9%	32.7%
Return on equity (ROE)	23.4%	18.1%	21.3%	12.7%	11.8%



## CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E
<b>Net income</b>	<b>243,834</b>	<b>393,570</b>	<b>653,105</b>	<b>459,400</b>	<b>482,366</b>
Depreciation and amortisation	903	1,729	1,695	1,932	2,105
Profit from investments in equity accounted investees	-94	0	-541	-8,411	-9,522
Change in fair value of investment properties	-230,968	-311,131	-598,280	-328,087	-330,106
Net finance expenses	54,704	25,903	47,440	38,013	36,308
Tax result	43,787	66,450	122,317	86,901	90,252
Others	171	753	1,024	0	0
<b>Operating cash flow</b>	<b>112,337</b>	<b>177,274</b>	<b>226,760</b>	<b>249,749</b>	<b>271,403</b>
Inventories - trading properties	14,134	-943	2,421	15,094	-1,089
Trade & other receivables	-39,030	-24,825	-5,908	-45,029	-23,679
Trade & other payables	31,359	20,234	2,510	16,371	23,964
Provisions for other liabilities	5,875	4,506	-5,549	3,340	3,434
Tax paid	-10,791	-18,798	-18,941	-34,965	-37,996
<b>Net cash flow from operating activities</b>	<b>113,884</b>	<b>157,448</b>	<b>201,293</b>	<b>204,559</b>	<b>236,035</b>
Investment in fixed/intangible assets	-1,847	-3,680	-3,304	-3,516	-3,847
Investments and acquisitions of investment property	-349,944	-406,475	-476,195	-553,582	-196,950
Acquisition of subsidiaries	-38,561	-445,922	-110,640	0	0
Proceeds from investments in financial assets	62,449	-358,971	32,955	-10,470	-10,993
<b>Cash flow from investing</b>	<b>-327,903</b>	<b>-1,215,048</b>	<b>-557,184</b>	<b>-567,567</b>	<b>-211,790</b>
Debt financing, net	393,143	440,130	487,473	214,557	130,578
Equity financing, net	0	639,939	170,999	198,000	0
Other financing activities	-11,648	-23,735	-43,838	-112,468	-113,765
Net paid financing expenses	-29,887	-32,864	-45,871	-38,013	-36,308
<b>Cash flow from financing</b>	<b>351,608</b>	<b>1,023,470</b>	<b>568,763</b>	<b>262,076</b>	<b>-19,495</b>
<b>Net cash flows</b>	<b>137,589</b>	<b>-34,130</b>	<b>212,872</b>	<b>-100,933</b>	<b>4,751</b>
Cash, start of the year	132,542	270,131	236,001	448,873	347,940
<b>Cash, end of the year</b>	<b>270,131</b>	<b>236,001</b>	<b>448,873</b>	<b>347,940</b>	<b>352,691</b>
<b>Adjusted EBITDA/share (in €)</b>	<b>0.94</b>	<b>1.27</b>	<b>1.46</b>	<b>1.52</b>	<b>1.63</b>
<b>FFO I</b>	<b>76,106</b>	<b>128,040</b>	<b>160,120</b>	<b>175,022</b>	<b>195,199</b>
<b>FFO/share (in €)</b>	<b>0.66</b>	<b>1.01</b>	<b>1.05</b>	<b>1.10</b>	<b>1.18</b>
<b>Y-Y Growth</b>					
Operating cash flow	85.5%	38.3%	27.8%	1.6%	15.4%
Adjusted EBITDA/share	32.6%	34.5%	15.0%	3.7%	7.6%
FFO I	99.5%	68.2%	25.1%	9.3%	11.5%

### 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...18	↓	↓	↓	↓
19	23 March 2017	€17.14	Buy	€25.50
20	16 May 2017	€18.87	Buy	€25.50
21	16 May 2017	€18.16	Buy	€25.10
22	Today	€18.22	Buy	€26.00

**Authored by: Ellis Acklin, Analyst**

**Company responsible for preparation:**

**First Berlin Equity Research GmbH**

Mohrenstraße 34  
10117 Berlin

Tel. +49 (0)30 - 80 93 96 83 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

**Person responsible for forwarding or distributing this financial analysis: Martin Bailey**

**Copyright© 2017 First Berlin Equity Research GmbH** No part of this financial analysis may be copied, photocopied, duplicated or distributed in any form or media whatsoever without prior written permission from First Berlin Equity Research GmbH. First Berlin Equity Research GmbH shall be identified as the source in the case of quotations. Further information is available on request.

#### INFORMATION PURSUANT TO SECTION 34B OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO THE GERMAN ORDINANCE ON THE ANALYSIS OF FINANCIAL INSTRUMENTS [FINANV]

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], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) 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.

#### CONFLICTS OF INTEREST

In accordance with Section 34b Paragraph 1 of the German Securities Trading Act [WpHG] and Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) financial analyses may only be passed on or publicly distributed if circumstances or relations which may cause conflicts of interest among the authors, the legal entities responsible for such preparation or companies associated with them are disclosed along with the financial analysis.

First Berlin offers a range of services that go beyond the preparation of financial analyses. Although First Berlin strives to avoid conflicts of interest wherever possible, First Berlin may maintain the following relations with the analysed company, which in particular may constitute a potential conflict of interest (further information and data may be provided on request):

- The author, First Berlin, or a company associated with First Berlin holds an interest of more than five percent in the share capital of the analysed company;
- The author, First Berlin, or a company associated with First Berlin provided investment banking or consulting services for the analysed company within the past twelve months for which remuneration was or was to be paid;
- The author, First Berlin, or a company associated with First Berlin reached an agreement with the analysed company for preparation of a financial analysis for which remuneration is owed;
- The author, First Berlin, or a company associated with First Berlin has other significant financial interests in the analysed company;

In order to avoid and, if necessary, manage possible conflicts of interest both the author of the financial analysis and First Berlin shall be obliged to neither hold nor in any way trade the securities of the company analyzed. The remuneration of the author of the financial analysis stands in no direct or indirect connection with the recommendations or opinions represented in the financial analysis. Furthermore, the remuneration of the author of the financial analysis is neither coupled directly to financial transactions nor to stock exchange trading volume or asset management fees.

If despite these measures one or more of the aforementioned conflicts of interest cannot be avoided on the part of the author or First Berlin, then reference shall be made to such conflict of interest.

#### 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

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

#### UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

#### SUBJECT TO CHANGE

The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

#### Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

**SUPERVISORY AUTHORITY:** Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

### EXCLUSION OF LIABILITY (DISCLAIMER)

#### RELIABILITY OF INFORMATION AND SOURCES OF INFORMATION

The information contained in this study is based on sources considered by the author to be reliable. Comprehensive verification of the accuracy and completeness of information and the reliability of sources of information has neither been carried out by the author nor by First Berlin. As a result no warranty of any kind whatsoever shall be assumed for the accuracy and completeness of information and the reliability of sources of information, and neither the author nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall be liable for any direct or indirect damage incurred through reliance on the accuracy and completeness of information and the reliability of sources of information.

#### RELIABILITY OF ESTIMATES AND FORECASTS

The author of the financial analysis made estimates and forecasts to the best of the author's knowledge. These estimates and forecasts reflect the author's personal opinion and judgement. The premises for estimates and forecasts as well as the author's perspective on such premises are subject to constant change. Expectations with regard to the future performance of a financial instrument are the result of a measurement at a single point in time and may change at any time. The result of a financial analysis always describes only one possible future development – the one that is most probable from the perspective of the author – of a number of possible future developments.

Any and all market values or target prices indicated for the company analysed in this financial analysis may not be achieved due to various risk factors, including but not limited to market volatility, sector volatility, the actions of the analysed company, economic climate, failure to achieve earnings and/or sales forecasts, unavailability of complete and precise information and/or a subsequently occurring event which affects the underlying assumptions of the author and/or other sources on which the author relies in this document. Past performance is not an indicator of future results; past values cannot be carried over into the future.

Consequently, no warranty of any kind whatsoever shall be assumed for the accuracy of estimates and forecasts, and neither the author nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall be liable for any direct or indirect damage incurred through reliance on the correctness of estimates and forecasts.

#### INFORMATION PURPOSES, NO RECOMMENDATION, SOLICITATION, NO OFFER FOR THE PURCHASE OF SECURITIES

The present financial analysis serves information purposes. It is intended to support institutional investors in making their own investment decisions; however in no way provide the investor with investment advice. Neither the author, nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall be considered to be acting as an investment advisor or portfolio manager vis-à-vis an investor. Each investor must form his own independent opinion with regard to the suitability of an investment in view of his own investment objectives, experience, tax situation, financial position and other circumstances.

The financial analysis does not represent a recommendation or solicitation and is not an offer for the purchase of the security specified in this financial analysis. Consequently, neither the author nor First Berlin, nor the person responsible for passing on or distributing the financial analysis shall as a result be liable for losses incurred through direct or indirect employment or use of any kind whatsoever of information or statements arising out of this financial analysis.

A decision concerning an investment in securities should take place on the basis of independent investment analyses and procedures as well as other studies including, but not limited to, information memoranda, sales or issuing prospectuses and not on the basis of this document.

**NO ESTABLISHMENT OF CONTRACTUAL OBLIGATIONS**

By taking note of this financial analysis the recipient neither becomes a customer of First Berlin, nor does First Berlin incur any contractual, quasi-contractual or pre-contractual obligations and/or responsibilities toward the recipient. In particular no information contract shall be established between First Berlin and the recipient of this information.

**NO OBLIGATION TO UPDATE**

First Berlin, the author and/or the person responsible for passing on or distributing the financial analysis shall not be obliged to update the financial analysis. Investors must keep themselves informed about the current course of business and any changes in the current course of business of the analysed company.

**DUPLICATION**

Dispatch or duplication of this document is not permitted without the prior written consent of First Berlin.

**SEVERABILITY**

Should any provision of this disclaimer prove to be illegal, invalid or unenforceable under the respectively applicable law, then such provision shall be treated as if it were not an integral component of this disclaimer; in no way shall it affect the legality, validity or enforceability of the remaining provisions.

**APPLICABLE LAW, PLACE OF JURISDICTION**

The preparation of this financial analysis shall be subject to the law obtaining in the Federal Republic of Germany. The place of jurisdiction for any disputes shall be Berlin (Germany).

**NOTICE OF DISCLAIMER**

By taking note of this financial analysis the recipient confirms the binding nature of the above explanations.

By using this document or relying on it in any manner whatsoever the recipient accepts the above restrictions as binding for the recipient.

**QUALIFIED INSTITUTIONAL INVESTORS**

First Berlin financial analyses are intended exclusively for qualified institutional investors.

**This report is not intended for distribution in the USA, Canada and/or the United Kingdom (Great Britain).**