

# GRAND CITY Properties S.A.

Luxembourg / Financial Services

Frankfurt

Bloomberg: GYC GR

ISIN: LU0775917882

Update

**RATING****PRICE TARGET**

Return Potential

Risk Rating

**BUY****€ 26.00**

42.3%

Medium

## SWIFT STEP UP INTO THE MDAX

Effective 18 September, Grand City Properties (GCP) will enter Germany's MDAX index as part of the reshuffling of the DAX family of indices. The step up into the mid cap. index results from GCP's high market capitalisation, strong share liquidity, and the June uplisting of its shares into the Prime Standard. The jump also comes directly on the heels of the June adoption into the SDAX for small caps. We expect this to further boost investor confidence. In our view, the current 21% discount to our projected 2017E NAVPS (€23) is excessive considering the solid growth prospects as highlighted in our 22 August update. Our rating is Buy with a €26 price target.

**MDAX inclusion another milestone in corporate history** The MDAX segment includes the 50 largest and most liquid companies outside of the large cap. DAX constituents. We expect the increased visibility to be appreciated by investors and lead to even greater share liquidity. With the move up to the MDAX, GCP joins its real estate brethren such as Deutsche Wohnen, TAG and LEG. Grand City is already a member of major FTSE EPRA / NAREIT indices such as FTSE EPRA / NAREIT Global, Developed, and Developed Europe, as well as the GPR 250 index.

**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, the stock currently trades some 21% below projected 2017E NAVPS. 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. (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

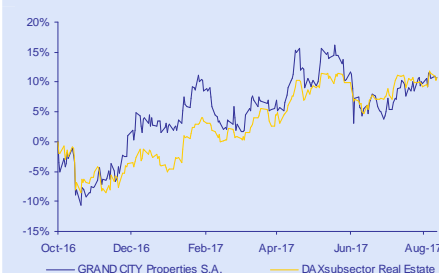
### MARKET DATA

As of 06 Sep 2017

Closing Price	€ 18.27
Shares outstanding	164.79m
Market Capitalisation	€ 3009.89m
52-week Range	€ 14.73 / 19.73
Avg. Volume (12 Months)	253,990

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	5.7%	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	€ 3370.60m

<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%



## EPRA NAV VALUATION

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	634,094	364,434	361,142
Dividends paid	112,468	113,765	126,879
Present value of dividends paid	111,417	109,366	118,363

Fair value calculation			
PV of total value created	1,359,669		
NAV (FY16)	3,065,064		
Equity value	4,424,733		
PV of dividends	339,146		
<b>Fair value</b>	<b>4,763,880</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 (€)	18.27	18.27	18.27
Return potential	42.3%	42.3%	42.3%
Dividend yield	3.8%	4.2%	4.7%
<b>Total return potential</b>	<b>46.1%</b>	<b>46.5%</b>	<b>47.0%</b>
NAV discount / premium (share price)	-20.5%	-28.5%	-34.2%
FFOPS I yield	6.0%	6.5%	6.9%



## 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...19	↓	↓	↓	↓
20	16 May 2017	€18.87	Buy	€25.50
21	22 June 2017	€18.16	Buy	€25.10
22	22 August 2017	€18.22	Buy	€26.00
23	Today	€18.27	Buy	€26.00

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### 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.

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- 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;
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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

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

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