

# GRAND CITY Properties S.A.

Luxembourg / Real Estate  
 Frankfurt  
 Bloomberg: GYC GR  
 ISIN: LU0775917882

Q1/18  
 Results

**RATING**  
**BUY**

**PRICE TARGET**  
**€ 27.00**

Return Potential 31.1%  
 Risk Rating Medium

## Q1 RESULTS JUSTIFY STRONG STOCK PERFORMANCE

First quarter reporting featured a strong operational performance with all headline figures showing low double digit growth. Net rent climbed 14% Y/Y, thanks to the revisionary potential of the portfolio, which resulted in 3% like-for-like (LFL) total net rent growth. GCP also disposed of several non-core assets post reporting amounting to €170m. The strong operational performance is beginning to be reflected in the share price, which has appreciated some 17% from February lows and is trading at 12 month highs. We look for the strong operational performance to continue this year and expect the company to comfortably reach guidance. Our rating remains Buy with a €27 price target.

**On track for strong 2018; balance sheet flush with cash** On the earnings call, management hinted at an overall pipeline of €500m, which contains some €300m in London properties to expand its current 2% UK exposure. We expect external growth to remain disciplined as GCP continues to filter its pipeline with a 5% unlevered NOI (net operating income) as a hurdle rate for acquisitions. The company exited Q1 with €798m in cash on the balance sheet. The liquidity position was further boosted by the April issuance of €350m in perpetual notes with a highly attractive 2.5% coupon. This gives the company excellent flexibility to execute on deal flow as it takes a more pan-European market view. Management also reiterated the dividend policy will remain at 65% of FFO 1, even if cash remains ample post acquisitions, and that its German exposure will remain > 90%. The company is well on track to meet our full year targets and its 2018 guidance (overleaf). We see good growth prospects for GCP this year (FBe: FFOPS 1 +6.3%, NAVPS +18%), driven by operational upside combined with opportunistic external growth.

**Operational strengths spur strong Q1** Both the top line and earnings showed strong performance. As of Q1, GCP realised total like-for-like (LFL) net rental growth of 3% comprising 2.5% in-place rent and 0.5% occupancy increases. Net rent thus rose 14% Y/Y to €90m and 5% sequentially. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Rental income (€m)	333.50	435.67	494.89	539.12	588.20	628.51
Y/Y growth	53.8%	30.6%	13.6%	8.9%	9.1%	6.9%
Adj. EBITDA (€m)	177.27	224.73	247.98	276.30	299.69	319.60
Net income	393.6	653.1	639.1	757.6	539.3	484.5
EPS (diluted) (€)	2.35	3.25	3.06	3.69	2.56	2.28
EPRA NAV <sup>1</sup> (€m)	2402.09	3208.45	3993.06	4974.34	5392.20	5726.20
DPS (€)	0.25	0.68	0.73	0.77	0.88	0.92
FFO 1 (€m)	128.04	160.12	178.01	196.37	214.41	231.67
FFOPS 1	1.01	1.05	1.12	1.19	1.27	1.33
Liquid assets (€m)	388.93	630.27	401.48	1006.69	882.64	767.66

<sup>1</sup> including perpetual notes

### RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavourable macroeconomic developments, and departure of key personnel.

### COMPANY PROFILE

Grand City Properties is a specialist real estate company focused on investing in and managing value-add opportunities in the German real estate market. 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 May 2018

Closing Price	€ 20.60
Shares outstanding	164.79m
Market Capitalisation	€ 3394.67m
52-week Range	€ 17.00 / 20.60
Avg. Volume (12 Months)	301,477

Multiples	2017	2018E	2019E
P/FFO 1	18.5	17.4	16.2
P/EPRA NAV	0.9	0.7	0.7
FFO 1/Yield	5.4%	5.8%	6.2%
Div. Yield	3.5%	3.7%	4.3%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Mar 2018

Liquid Assets	€ 900.00m
Current Assets	€ 1,531.00m
EPRA NAV <sup>1</sup>	€ 4,131.00m
Total Assets	€ 8,319.00m
Current Liabilities	€ 394.00m
Total Equity	€ 3,964.00m

<sup>1</sup> including perpetual notes

### SHAREHOLDERS

Edolaxia Ltd.	38.0%
Edge Point	5.1%
Free Float	56.9%

**Table 1: First quarter results vs forecasts**

in €m	Q1/18	Q1/18E	delta	Q1/17	delta
Revenue	134	126	6.3%	119	12.6%
Net rent	90	84	7.0%	79	14.3%
Adjusted EBITDA	68	64	6.1%	60	13.9%
Margin	75.2%	75.8%	-	75.4%	-
FFO I	50	46	8.8%	42	17.9%
FFOPS I (€)	0.30	0.28	8.8%	0.27	11.1%

Source: First Berlin Equity Research; Grand City Properties

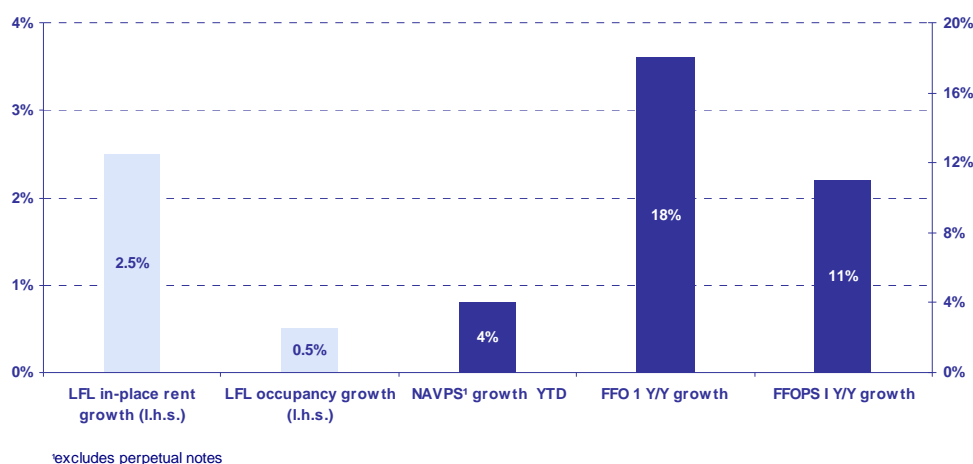
FFO 1, the key industry indicator for recurring cash flow, climbed 18% Y/Y to €49m equating to FFOPS 1 of €0.30. This topped our estimate by nearly 9%, owing to the better than expected top line performance and a slightly lower tax result. On an annualised basis, FFOPS 1 equals €1.20 corresponding to a 5.9% yield. This also represents the mid point of the guided FFOPS 1 range (€1.19 - €1.22).

**Table 2: FFOPS 1 adjusted for perpetual note attribution**

€m	Q1/18	Q1/17	Delta
<b>FFO 1</b>	<b>50</b>	<b>42</b>	<b>18%</b>
Adjustment for accrued perpetual note attribution	-6	-6	-
<b>FFO 1 after perpetual note attribution</b>	<b>44</b>	<b>36</b>	<b>20%</b>
Weighted avg. basic share count ('000)	164,789	153,789	
<b>FFOPS 1 after perpetual note attribution</b>	<b>0.26</b>	<b>0.23</b>	<b>13%</b>

Source: First Berlin Equity Research; Grand City Properties

The capital gains, property revaluations and other income line item totalled €118m for the quarter (Q1/17: €55m, +115%). The strong development relates to GCP's value-add business model: acquiring properties with strong value upside and repositioning the assets to unlock this potential. Adjusted EBITDA, which reflects recurring operational profit excluding capital gains and revaluation effects, rose 14% Y/Y to €68m (Q1/17: €60m; FBe: €64m). After the reporting period, Grand City sold non-core properties classified as assets held for sale for €170m. These properties were acquired as part of large portfolio deals and were sold 7% above current book value. The disposals resulted in an economic profit of €100m equal to a margin of some 160%

**Figure 1: Operating performance as of 31 March**

Source: First Berlin Equity Research; Grand City Properties

**Table 3: Portfolio overview as of Q1**

	Investment properties (€m)	Rentable area ('000 m <sup>2</sup> )	EPRA vacancy	Annualised net rent (€m)	In-place rent (€/m <sup>2</sup> )	Number of units	Value (€/m <sup>2</sup> )	Rental yield
NRW	1,850	1,831	8.1%	111	5.4	27386	1,010	6.0%
Berlin	1,521	627	5.3%	53	7.3	8076	2,424	3.5%
Dresden / Leipzig /Halle	948	1,076	8.5%	57	4.9	18537	881	6.1%
Mannheim /KL / Frankfurt / Mainz	332	251	4.8%	18	6.1	4146	1,325	5.4%
Nuremberg /Fürth / Munich	197	102	4.0%	10	7.7	1471	1,935	4.9%
Bremen / Hamburg / Hannover	462	364	4.8%	25	6.0	5445	1,268	5.3%
Others	1,129	1,185	8.0%	74	5.8	19962	953	6.5%
<b>Total</b>	<b>6,439</b>	<b>5,436</b>	<b>7.2%</b>	<b>348</b>	<b>5.8</b>	<b>85,023</b>	<b>1,184</b>	<b>5.4%</b>

Source: First Berlin Equity Research; Grand City Properties

Investment properties (excluding assets held for sale) stood at €6.4bn and contain 85k units with good demographics. As of 31 March, EPRA NAV totalled €3.5bn (€21.0 / share) compared to €3.3bn at year end 2017 (€20.2 /share, +4% Q/Q). NAV growth owes predominantly to the strong net profit of €132m recorded for the period. Including the perpetual notes, which are classified as equity under IFRS, this KPI stood at €4.1bn or €25 / share (+3% Q/Q).

**Table 4: Financial highlights**

in €m	Q1/18	2017	Delta
Cash & liquid assets	900	402	124%
Investment property <sup>1</sup>	6,425	6,388	1%
Total equity	3,964	3,850	3%
EPRA NAV incl. hybrid notes	4,131	3,993	3%
EPRA NAV	3,461	3,327	4%
Interest bearing debt	952	941	1%
Straight bonds	2,201	1,423	55%
Convertible bond	270	432	-38%
Loan-to-Value (LTV)	37%	36%	-
Equity ratio	48%	51%	-

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

Source: First Berlin Equity Research; Grand City Properties

**Well financed for opportunistic growth** GCP reported cash and liquid assets of €900m for the period ended 31 March compared to €402m at the end of Q4/17, while net debt stood at €2.5bn vs €2.4bn at the end of 2017. The debt structure featured an LTV of 37%, which remains well below the 45% internal limit set by the Management Board. Coverage ratios were solid with a debt service coverage ratio (DSCR) and an interest coverage ratio (ICR) of 5.0x and 5.9x respectively at the end of Q1. The debt structure continues to feature a 1.6% average cost of debt.

GCP also issued €350m in perpetual notes in April at a highly attractive 2.5%. Management have often stated that it will continually optimise the balance sheet and ensure the company has the financial firepower to execute on deal flow as the market evolves. Although the cash position is currently high compared to past quarters, the company believes it will put the cash to work and does not plan on raising its dividend payout ratio above the current 65%.



## VALUATION MODEL

Management reiterated 2018 guidance looking for FFO 1 of €196m - €201m and FFOPS 1 of €1.19 - €1.22 spurred by 3% LFL growth. Our discounted EPRA NAV valuation model yields a price target of €27. This figure is conservatively based on EPRA NAV excluding perpetual notes. Our PT corresponds to a total return of 36% including the dividend yield. We expect the recent positive share price development to continue supported by the current growth trajectory this year (FBe: FFOPS +6.3%, NAVPS +18.0%). Our rating remains Buy.

All figures in EUR '000	2018E	2019E	2020E
Shareholders' equity (excl. perpetual notes)	3,385,438	3,743,151	4,029,072
Derivative financial instruments	5,885	5,885	5,885
Deferred tax liabilities	573,706	633,854	681,937
EPRA NAV	3,965,029	4,382,890	4,716,894
<b>EPRA NAV per share (€)</b>	<b>29.9</b>	<b>31.5</b>	<b>32.5</b>
FFO I	196,373	214,410	231,669
Revaluation results	462,697	375,930	300,515
<b>Total return</b>	<b>659,070</b>	<b>590,340</b>	<b>532,184</b>

EPRA NAV	3,965,029	4,382,890	4,716,894
Return on NAV	19.8%	14.9%	12.1%
Cost of equity	5.0%	5.0%	5.0%
<b>Spread (percentage points)</b>	<b>14.9%</b>	<b>9.9%</b>	<b>7.2%</b>
Value creation	589,070	435,513	339,159
NPV	578,402	414,968	313,594
Dividends paid	115,708	127,642	150,087
Present value of dividends paid	113,613	121,621	138,774

Fair value calculation	
PV of total value created	1,306,964
NAV (excl. Perpetual notes) (YE: 2017)	3,183,791
Equity value	4,490,755
PV of dividends	374,008
<b>Fair value</b>	<b>4,864,763</b>
Number of shares (fully diluted)	176,957
<b>Fair value per share (€)</b>	<b>27.00</b>

Valuation metrics	2018E	2019E	2020E
Price target (€)	27.00	27.00	27.00
Share price (€)	20.60	20.60	20.60
Return potential	31.1%	31.1%	31.1%
Dividend yield	3.7%	4.3%	4.5%
<b>Total return potential</b>	<b>34.8%</b>	<b>35.3%</b>	<b>35.5%</b>
NAV discount / premium (share price)	-14.9%	-31.1%	-34.7%
FFOPS 1 yield	5.8%	6.2%	6.5%



## INCOME STATEMENT

All figures in EURm	2015	2016	2017	2018E	2019E	2020E
<b>Net rent</b>	<b>220</b>	<b>285</b>	<b>328</b>	<b>353</b>	<b>384</b>	<b>411</b>
<b>Rental and operating income</b>	<b>333</b>	<b>436</b>	<b>495</b>	<b>539</b>	<b>588</b>	<b>629</b>
Revenue from sale of buildings	0	7	2	170	0	0
<b>Revenue</b>	<b>333</b>	<b>443</b>	<b>497</b>	<b>709</b>	<b>588</b>	<b>629</b>
Capital gains, property revaluations & other	311	598	616	463	376	301
Result from equity-accounted investees	0	1	6	8	9	0
Property expenses	-152	-204	-239	-253	-278	-297
Cost of buildings sold	0	-5	-1	0	0	0
Administration expenses	-7	-10	-11	-12	-13	-14
<b>Operating income (EBIT)</b>	<b>486</b>	<b>823</b>	<b>868</b>	<b>915</b>	<b>683</b>	<b>618</b>
Finance expenses	-26	-36	-40	-47	-49	-49
Other financial results	0	-11	-43	-5	0	0
<b>Pre-tax income (EBT)</b>	<b>460</b>	<b>775</b>	<b>786</b>	<b>863</b>	<b>633</b>	<b>569</b>
Tax and deferred tax expenses	-66	-122	-146	-105	-94	-84
Minority interests	-35	-88	-80	-76	-54	-48
Hybrid note investors	-15	-23	-24	-29	-33	-33
<b>Net income</b>	<b>344</b>	<b>542</b>	<b>535</b>	<b>652</b>	<b>453</b>	<b>403</b>
Basic EPS (€)	2.71	3.56	3.35	3.94	2.68	2.32
Diluted EPS (€)	2.35	3.25	3.06	3.69	2.56	2.28
<b>Adjusted EBITDA</b>	<b>177</b>	<b>225</b>	<b>248</b>	<b>276</b>	<b>300</b>	<b>320</b>
<b>Ratios</b>						
Adjusted EBITDA margin	53.2%	51.6%	50.1%	51.3%	51.0%	50.9%
Tax rate	12.8%	11.9%	-11.3%	11.3%	11.3%	11.3%
<b>Expenses as % of revenues</b>						
Property expenses	45.4%	46.8%	48.3%	46.9%	47.2%	47.2%
Administration expenses	2.1%	2.2%	2.2%	2.3%	2.3%	2.3%
<b>Y-Y Growth</b>						
Rental and operating income	53.8%	30.6%	13.6%	8.9%	9.1%	6.9%
Total revenues	44.1%	32.7%	12.2%	42.7%	-17.1%	6.9%
Operating income	41.9%	69.3%	5.5%	5.3%	-25.4%	-9.4%
Adjusted EBITDA	58.3%	26.8%	10.3%	11.4%	8.5%	6.6%
Net income/ loss	67.3%	57.7%	-1.5%	22.1%	-30.6%	-10.9%
<b>Funds from Operations (FFO)</b>						
<b>Operating profit</b>	<b>486</b>	<b>823</b>	<b>868</b>	<b>915</b>	<b>683</b>	<b>618</b>
Depreciation and amortisation	2	2	2	2	2	2
<b>EBITDA</b>	<b>488</b>	<b>825</b>	<b>871</b>	<b>917</b>	<b>685</b>	<b>620</b>
Capital gains, property revaluations and other	-311	-598	-616	-463	-376	-301
Result from disposal of trading properties	0	-2	0	-170	0	0
Others	1	0	-6	-8	-9	0
<b>Adjusted EBITDA</b>	<b>177</b>	<b>225</b>	<b>248</b>	<b>276</b>	<b>300</b>	<b>320</b>
Financial expense	-26	-36	-40	-47	-49	-49
Tax	-23	-27	-28	-31	-34	-36
Minorities	-1	-1	-2	-2	-2	-2
<b>FFO I</b>	<b>128</b>	<b>160</b>	<b>178</b>	<b>196</b>	<b>214</b>	<b>232</b>
CapEx	-34	-56	-67	-84	-92	-99
<b>AFFO</b>	<b>94</b>	<b>104</b>	<b>111</b>	<b>112</b>	<b>122</b>	<b>133</b>



## BALANCE SHEET

All figures in EURm	2015	2016	2017	2018E	2019E	2020E
<b>Assets</b>						
<b>Current assets, total</b>	<b>627</b>	<b>1,028</b>	<b>796</b>	<b>1,604</b>	<b>1,509</b>	<b>1,417</b>
Cash and cash equivalents	236	449	312	917	793	678
Traded securities at fair value though P&L	153	181	89	89	89	89
Trade and other receivables	226	220	260	295	322	344
Inventories - Trading property	12	27	12	14	15	16
Assets held for sale	0	150	123	288	288	288
<b>Non-current assets, total</b>	<b>4,062</b>	<b>5,126</b>	<b>6,712</b>	<b>7,482</b>	<b>8,101</b>	<b>8,621</b>
Equipment and intangible assets	9	16	20	22	24	26
Investment property	3,846	4,823	6,414	7,145	7,721	8,203
Equity accounted investees	0	118	37	45	54	54
Other LT assets	195	155	214	240	268	301
Deferred tax assets	11	15	28	31	34	37
<b>Total assets</b>	<b>4,689</b>	<b>6,154</b>	<b>7,508</b>	<b>9,086</b>	<b>9,610</b>	<b>10,038</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>277</b>	<b>338</b>	<b>371</b>	<b>370</b>	<b>398</b>	<b>421</b>
Short-term debt	55	29	62	62	62	62
Trade and other payables	190	252	267	263	289	309
Other current liabilities	32	58	42	44	47	50
<b>Long-term liabilities, total</b>	<b>2,239</b>	<b>2,750</b>	<b>3,288</b>	<b>3,881</b>	<b>3,965</b>	<b>4,036</b>
Long-term debt	792	897	919	790	790	790
Convertible and straight bonds	1,168	1,478	1,810	2,456	2,476	2,496
Deferred taxes	239	326	500	574	634	682
Other LT liabilities	40	50	59	62	65	68
Minority interests	142	197	364	440	494	543
<b>Shareholders' equity</b>	<b>2,030</b>	<b>2,868</b>	<b>3,485</b>	<b>4,395</b>	<b>4,752</b>	<b>5,038</b>
<b>Total consolidated equity and debt</b>	<b>4,689</b>	<b>6,154</b>	<b>7,508</b>	<b>9,086</b>	<b>9,610</b>	<b>10,038</b>
<b>Ratios</b>						
Current ratio (x)	2.26	3.04	2.15	4.34	3.79	3.37
Equity ratio	46.3%	49.8%	51.3%	53.2%	54.6%	55.6%
EPRA NAV <sup>1</sup> (€m)	2,402	3,208	3,993	4,974	5,392	5,726
Net debt (€m)	1,626	1,783	2,393	2,301	2,446	2,581
Financial leverage	80.1%	62.2%	68.7%	52.4%	51.5%	51.2%
Loan-to-value (LTV)	41.9%	34.9%	36.4%	30.8%	30.3%	30.2%
Return on equity (ROE)	18.1%	21.3%	16.6%	15.7%	10.3%	8.7%

<sup>1</sup> including perpetual notes



## CASH FLOW STATEMENT

All figures in EURm	2015	2016	2017E	2018E	2019E	2020E
<b>Net income</b>	<b>394</b>	<b>653</b>	<b>639</b>	<b>758</b>	<b>539</b>	<b>484</b>
Depreciation and amortisation	2	2	2	2	2	2
Profit from equity accounted investees	0	-1	-6	-8	-9	0
Change in fair value of investment properties	-311	-598	-616	-463	-376	-301
Net finance expenses	26	47	83	52	49	49
Tax result	66	122	146	105	94	84
Others	1	1	1	0	0	0
<b>Operating cash flow</b>	<b>177</b>	<b>227</b>	<b>248</b>	<b>446</b>	<b>300</b>	<b>320</b>
Inventories - trading properties	-1	2	-6	-168	-1	-1
Trade & other receivables	-25	-6	-39	-36	-27	-22
Trade & other payables	20	3	19	-3	26	20
Provisions for other liabilities	5	-6	3	2	2	2
Tax paid	-19	-19	-23	-31	-34	-36
<b>Net cash flow from operating activities</b>	<b>157</b>	<b>201</b>	<b>202</b>	<b>211</b>	<b>266</b>	<b>282</b>
Investment in fixed/intangible assets	-4	-3	-6	-4	-5	-4
Investments & acquisitions of investment property	-406	-476	-374	-269	-200	-182
Acquisition of subsidiaries	-446	-111	-324	0	0	0
Proceeds from investments in financial assets	-359	33	95	-26	-29	-32
<b>Cash flow from investing</b>	<b>-1,215</b>	<b>-557</b>	<b>-608</b>	<b>-298</b>	<b>-233</b>	<b>-218</b>
Debt financing, net	440	487	597	517	20	20
Equity financing, net	640	171	176	343	0	0
Other financing activities	-24	-44	-457	-121	-128	-150
Net paid financing expenses	-33	-46	-47	-47	-49	-49
<b>Cash flow from financing</b>	<b>1,023</b>	<b>569</b>	<b>269</b>	<b>693</b>	<b>-156</b>	<b>-179</b>
<b>Net cash flows</b>	<b>-34</b>	<b>213</b>	<b>-137</b>	<b>605</b>	<b>-124</b>	<b>-115</b>
Cash, start of the year	270	236	449	312	917	793
<b>Cash, end of the year</b>	<b>236</b>	<b>449</b>	<b>312</b>	<b>917</b>	<b>793</b>	<b>678</b>
<b>Adjusted EBITDA / share (€)</b>	<b>1.27</b>	<b>1.46</b>	<b>1.50</b>	<b>1.66</b>	<b>1.75</b>	<b>1.81</b>
<b>FFO I</b>	<b>128</b>	<b>160</b>	<b>178</b>	<b>196</b>	<b>214</b>	<b>232</b>
<b>FFOPS I (€)</b>	<b>1.01</b>	<b>1.05</b>	<b>1.12</b>	<b>1.19</b>	<b>1.27</b>	<b>1.33</b>
<b>Y-Y Growth</b>						
Operating cash flow	38.3%	27.8%	0.5%	4.3%	26.0%	6.3%
Adjusted EBITDA / share	34.5%	15.0%	3.0%	10.3%	5.6%	3.5%
FFO I	68.2%	25.1%	11.2%	10.3%	9.2%	8.0%
FFOPS I	52.8%	3.9%	6.5%	6.3%	7.2%	5.0%

**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...23	↓	↓	↓	↓
24	20 November 2017	€18.74	Buy	€26.00
25	13 March 2018	€18.95	Buy	€26.00
26	21 March 2018	€19.15	Buy	€27.00
27	Today	€20.60	Buy	€27.00

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

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

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