

# GRAND CITY Properties S.A.

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

Update

<b>RATING</b>	<b>BUY</b>
<b>PRICE TARGET</b>	<b>€28.00</b>
Return Potential	19.5%
Risk Rating	Medium

## SENATOR WANTS TO FREEZE BERLIN RENTS FOR FIVE YEARS

The Berlin residential market has been the focus of a tenant uproar and media frenzy the last months, due to soaring rents. This includes a tenant initiative calling for large landlords to sell their Berlin portfolios to the city. While we have disregarded expropriation as a highly unlikely scenario, the Berlin senate has now responded to public pressure with a five year rent freeze proposal. German property stocks are down in early trading on renewed regulatory jitters. While we see marginal operational risk to Grand City, we expect sector sentiment to suffer until there is more clarity on the proposal and its ultimate impact. Our Buy rating and €28 price target remain unchanged.

**Brace for renewed media hype** The senate has now weighed in on the Berlin rent crisis and will vote this fall on a proposal from Senator Katrin Lompscher to cap rents for five years starting in 2020. Social housing and new-build properties would be exempt, but modernisation plans would be impacted. As we wrote in our note of 7 May, expropriation and now a proposed rent freeze fail to address the overarching problem—supply! Sputtering new construction is endlessly gated by slow permitting and burdensome regulations. We fail to see how a rent cap will provide housing for the 300k population influx that city planners are expecting over the next ten years. Plus, with rents locked in, tenants have no incentive to move, which could tighten supply even further. While it is difficult to speculate on the final outcome of Senator Lompscher's proposal, it is clear the Berlin government plans to react to public pressure in some form. And now the media has further material to supercharge headlines.

**Too early to quantify Grand City's exposure** Berlin constitutes 21% of GCP's portfolio, which has benefitted from steady LFL rent income performances over the past years. While a successful proposal will in a worst case scenario stop value extraction for five years, a simplified calculation suggests LFL rental income growth could dip below 3% starting in 2020, . . . (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018	2019E	2020E
Rental income (€m)	333.50	435.67	494.89	544.98	596.96	633.62
Y/Y growth	53.8%	30.6%	13.6%	10.1%	9.5%	6.1%
Adj. EBITDA (€m)	177.27	224.73	247.98	275.53	298.18	315.86
Net income <sup>2</sup> (€m)	343.9	542.5	534.6	488.6	414.8	416.3
EPS (diluted) (€)	2.35	3.25	3.06	2.76	2.33	2.34
EPRA NAV <sup>1</sup> (€m)	2402.09	3208.45	3993.06	4783.07	5170.47	5533.10
DPS (€)	0.25	0.68	0.73	0.77	0.83	0.88
FFO 1 (€m)	128.04	160.12	178.01	197.85	211.95	226.82
FFOPS 1 (€)	1.01	1.05	1.12	1.19	1.27	1.36
Liquid assets (€m)	388.93	630.27	401.48	765.04	776.49	674.44

<sup>1</sup> including perpetual notes <sup>2</sup>after minority interests and hybrid investors

### 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.

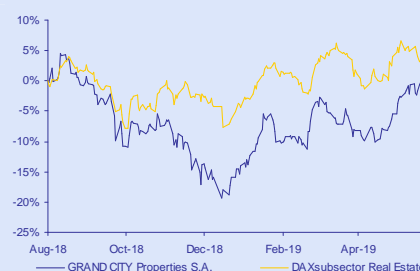
### MARKET DATA

As of 05 Jun 2019

Closing Price	€ 23.44
Shares outstanding	166.72m
Market Capitalisation	€ 3907.92m
52-week Range	€ 18.62 / 24.16
Avg. Volume (12 Months)	224,821

Multiples	2018	2019E	2020E
P/FFO 1	19.6	18.4	17.2
P/EPRA NAV	0.8	0.8	0.7
FFO 1 Yield	5.1%	5.4%	5.8%
Div. Yield	3.3%	3.5%	3.8%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Mar 2019

Liquid Assets	€ 565.00m
Current Assets	€ 3,241.00m
EPRA NAV <sup>1</sup>	€ 4,918.00m
Total Assets	€ 8,990.00m
Current Liabilities	€ 358.00m
Total Equity	€ 4,744.00m

<sup>1</sup> including perpetual notes

### SHAREHOLDERS

Edolaxia Ltd.	38.7%
Free Float	61.3%



. . . assuming the company is unable to compensate in other areas. Until we have more clarity on the proposed cap, it is too early to guess the overall impact on earnings over the period. In our view, the greater risk is that investors—particularly abroad—begin to consider German property stocks off limits. We thus expect the already shaky sentiment to take another hit on today's headlines. Shares of Deutsche Wohnen (DWIN:GR) and ADO Properties (ADJ:GR) were under heavy pressure this morning, due to their high (70% and 100% respectively) exposures to the German capital.

## VALUATION MODEL

in €m	2019E	2020E	2021E	2022E	TV
<b>EBITDA</b>	298	316	333	350	354
(+) Revaluations	342	322	312	260	50
(+) Investment income	2	2	2	2	2
(-) Tax expense	96	96	97	92	61
<b>NOPAT</b>	<b>546</b>	<b>543</b>	<b>550</b>	<b>520</b>	<b>345</b>
<b>Total assets</b>	<b>9,513</b>	<b>9,962</b>	<b>10,233</b>	<b>10,975</b>	<b>10,975</b>
(-) Current liabilities	307	327	339	355	355
(+) Current financial debt	22	22	22	22	22
(-) Cash	615	513	253	480	480
(+) Deferred taxes	541	588	635	681	681
<b>Capital employed (CE)</b>	<b>9,153</b>	<b>9,732</b>	<b>10,298</b>	<b>10,842</b>	<b>10,842</b>
Average CE	8,806	9,443	10,015	10,570	10,842
ROCE	6.2%	5.8%	5.5%	4.9%	3.2%
WACC	3.1%	3.1%	3.1%	3.1%	3.1%
ROCE-WACC	3.1%	2.7%	2.4%	1.8%	0.1%
Economic Profit	274	252	241	194	10
<b>NPV</b>	<b>274</b>	<b>240</b>	<b>223</b>	<b>174</b>	<b>446</b>
<b>Fair value calculation</b>					
<b>Total return</b>	<b>1,357</b>				
(+) EPRA NAV (2018)	3,753				
(-) Dividend to be paid	129				
<b>Equity value</b>	<b>4,981</b>				
Diluted SO ('000)	178				
<b>Fair value per share (€)</b>	<b>28.00</b>				



## INCOME STATEMENT

All figures in EURm	2015	2016	2017	2018	2019E	2020E
<b>Net rent</b>	<b>220</b>	<b>285</b>	<b>328</b>	<b>364</b>	<b>388</b>	<b>412</b>
<b>Rental and operating income</b>	<b>333</b>	<b>436</b>	<b>495</b>	<b>545</b>	<b>597</b>	<b>634</b>
Revenue from sale of buildings	0	7	2	0	0	0
<b>Revenue</b>	<b>333</b>	<b>443</b>	<b>497</b>	<b>545</b>	<b>597</b>	<b>634</b>
Capital gains, property revaluations & other	311	598	616	507	342	322
Result from equity-accounted investees	0	1	6	1	2	2
Property expenses	-152	-204	-239	-263	-288	-305
Cost of buildings sold	0	-5	-1	0	0	0
Administration expenses	-7	-10	-11	-11	-13	-14
<b>Operating income (EBIT)</b>	<b>486</b>	<b>823</b>	<b>868</b>	<b>780</b>	<b>639</b>	<b>637</b>
Finance expenses	-26	-36	-40	-46	-52	-53
Other financial results	0	-11	-43	-36	0	0
<b>Pre-tax income (EBT)</b>	<b>460</b>	<b>775</b>	<b>786</b>	<b>698</b>	<b>588</b>	<b>584</b>
Tax and deferred tax expenses	-66	-122	-146	-115	-90	-86
Minority interests	-35	-88	-80	-64	-50	-50
Hybrid note investors	-15	-23	-24	-30	-33	-33
<b>Net income</b>	<b>344</b>	<b>542</b>	<b>535</b>	<b>489</b>	<b>415</b>	<b>416</b>
Basic EPS (€)	2.71	3.56	3.35	2.95	2.49	2.50
Diluted EPS (€)	2.35	3.25	3.06	2.76	2.33	2.34
<b>Adjusted EBITDA</b>	<b>177</b>	<b>225</b>	<b>248</b>	<b>276</b>	<b>298</b>	<b>316</b>
<b>Ratios</b>						
Adjusted EBITDA margin	53.2%	51.6%	50.1%	50.6%	50.0%	49.9%
Tax rate	12.8%	11.9%	-11.3%	-10.8%	10.8%	10.8%
<b>Expenses as % of revenues</b>						
Property expenses	45.4%	46.8%	48.3%	48.2%	48.2%	48.2%
Administration expenses	2.1%	2.2%	2.2%	1.9%	2.3%	2.3%
<b>Y-Y Growth</b>						
Rental and operating income	53.8%	30.6%	13.6%	10.1%	9.5%	6.1%
Total revenues	44.1%	32.7%	12.2%	9.7%	9.5%	6.1%
Operating income	41.9%	69.3%	5.5%	-10.2%	-18.0%	-0.4%
Adjusted EBITDA	58.3%	26.8%	10.3%	11.1%	8.2%	5.9%
Net income/ loss	67.3%	57.7%	-1.5%	-8.6%	-15.1%	0.4%
<b>Funds from Operations (FFO)</b>						
<b>Operating profit</b>	<b>486</b>	<b>823</b>	<b>868</b>	<b>780</b>	<b>639</b>	<b>637</b>
Depreciation and amortisation	2	2	2	3	2	2
<b>EBITDA</b>	<b>488</b>	<b>825</b>	<b>871</b>	<b>782</b>	<b>642</b>	<b>639</b>
Capital gains, property revaluations and other	-311	-598	-616	-507	-342	-322
Result from disposal of trading properties	0	-2	0	0	0	0
Others	1	0	-6	0	-2	-2
<b>Adjusted EBITDA</b>	<b>177</b>	<b>225</b>	<b>248</b>	<b>276</b>	<b>298</b>	<b>316</b>
Financial expense	-26	-36	-40	-46	-52	-53
Tax	-23	-27	-28	-30	-32	-34
Minorities	-1	-1	-2	-2	-2	-2
<b>FFO 1</b>	<b>128</b>	<b>160</b>	<b>178</b>	<b>198</b>	<b>212</b>	<b>227</b>
CapEx	-34	-56	-67	-75	-83	-89
<b>AFFO</b>	<b>94</b>	<b>104</b>	<b>111</b>	<b>122</b>	<b>129</b>	<b>138</b>



## BALANCE SHEET

All figures in EURm	2015	2016	2017	2018	2019E	2020E
<b>Assets</b>						
<b>Current assets, total</b>	<b>627</b>	<b>1,028</b>	<b>796</b>	<b>1,238</b>	<b>1,289</b>	<b>1,210</b>
Cash and cash equivalents	236	449	312	603	615	513
Traded securities at fair value though P&L	153	181	89	162	162	162
Trade and other receivables	226	220	260	319	360	382
Inventories - Trading property	12	27	12	17	16	17
Assets held for sale	0	150	123	136	136	136
<b>Non-current assets, total</b>	<b>4,062</b>	<b>5,126</b>	<b>6,712</b>	<b>7,623</b>	<b>8,224</b>	<b>8,752</b>
Equipment and intangible assets	9	16	20	24	26	29
Investment property	3,846	4,823	6,414	7,282	7,861	8,364
Equity accounted investees	0	118	37	26	28	29
Other LT assets	195	155	214	254	269	285
Deferred tax assets	11	15	28	37	40	44
<b>Total assets</b>	<b>4,689</b>	<b>6,154</b>	<b>7,508</b>	<b>8,861</b>	<b>9,513</b>	<b>9,962</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>277</b>	<b>338</b>	<b>371</b>	<b>306</b>	<b>342</b>	<b>362</b>
Short-term debt	55	29	62	22	22	22
Trade and other payables	190	252	267	242	276	293
Other current liabilities	32	58	42	42	45	47
<b>Long-term liabilities, total</b>	<b>2,239</b>	<b>2,750</b>	<b>3,288</b>	<b>3,887</b>	<b>4,135</b>	<b>4,203</b>
Long-term debt	792	897	919	846	884	884
Convertible and straight bonds	1,168	1,478	1,810	2,450	2,598	2,612
Deferred taxes	239	326	500	523	581	633
Other LT liabilities	40	50	59	69	72	75
Minority interests	142	197	364	409	459	509
<b>Shareholders' equity</b>	<b>2,030</b>	<b>2,868</b>	<b>3,485</b>	<b>4,258</b>	<b>4,576</b>	<b>4,888</b>
<b>Total consolidated equity and debt</b>	<b>4,689</b>	<b>6,154</b>	<b>7,508</b>	<b>8,861</b>	<b>9,513</b>	<b>9,962</b>
<b>Ratios</b>						
Current ratio (x)	2.26	3.04	2.15	4.04	3.77	3.34
Equity ratio	46.3%	49.8%	51.3%	52.7%	52.9%	54.2%
EPRA NAV <sup>1</sup> (€m)	2,402	3,208	3,993	4,783	5,170	5,533
Net debt (€m)	1,626	1,783	2,393	2,560	2,727	2,843
Net debt / equity	0.8	0.6	0.7	0.6	0.6	0.6
Net debt / EBITDA (x)	9.2	7.9	9.7	9.3	9.1	9.0
Interest cover (x)	6.9	6.2	6.2	6.0	5.7	6.0
Loan-to-value (LTV)	41.9%	34.9%	36.4%	34.3%	34.0%	33.3%
Return on equity (ROE)	18.1%	21.3%	16.6%	12.5%	9.9%	9.2%

<sup>1</sup> including perpetual notes



## CASH FLOW STATEMENT

All figures in EURm	2015	2016	2017	2018	2019E	2020E
<b>Net income</b>	<b>394</b>	<b>653</b>	<b>639</b>	<b>583</b>	<b>497</b>	<b>499</b>
Depreciation and amortisation	2	2	2	3	2	2
Profit from equity accounted investees	0	-1	-6	-1	-2	-2
Change in fair value of investment properties	-311	-598	-616	-507	-342	-322
Net finance expenses	26	47	83	82	52	53
Tax result	66	122	146	115	90	86
Others	1	1	1	1	0	0
<b>Operating cash flow</b>	<b>177</b>	<b>227</b>	<b>248</b>	<b>276</b>	<b>298</b>	<b>316</b>
Inventories - trading properties	-1	2	-6	-6	1	-1
Trade & other receivables	-25	-6	-39	-38	-40	-22
Trade & other payables	20	3	19	18	34	17
Provisions for other liabilities	5	-6	3	3	2	2
Tax paid	-19	-19	-23	-28	-32	-34
<b>Net cash flow from operating activities</b>	<b>157</b>	<b>201</b>	<b>202</b>	<b>225</b>	<b>262</b>	<b>277</b>
Investment in fixed/intangible assets	-4	-3	-6	-6	-5	-5
Investments & acquisitions of investment property	-406	-476	-374	-501	-236	-182
Acquisition of subsidiaries	-446	-111	-324	-112	0	0
Proceeds from investments in financial assets	-359	33	95	-100	-15	-16
<b>Cash flow from investing</b>	<b>-1,215</b>	<b>-557</b>	<b>-608</b>	<b>-718</b>	<b>-256</b>	<b>-202</b>
Debt financing, net	440	487	597	916	187	14
Equity financing, net	640	171	176	312	0	0
Other financing activities	-24	-44	-457	-385	-129	-138
Net paid financing expenses	-33	-46	-47	-56	-52	-53
<b>Cash flow from financing</b>	<b>1,023</b>	<b>569</b>	<b>269</b>	<b>786</b>	<b>6</b>	<b>-177</b>
<b>Net cash flows</b>	<b>-34</b>	<b>213</b>	<b>-137</b>	<b>291</b>	<b>11</b>	<b>-102</b>
Cash, start of the year	270	236	449	312	603	615
<b>Cash, end of the year</b>	<b>236</b>	<b>449</b>	<b>312</b>	<b>603</b>	<b>615</b>	<b>513</b>
<b>Adjusted EBITDA / share (€)</b>	<b>1.27</b>	<b>1.46</b>	<b>1.50</b>	<b>1.65</b>	<b>1.79</b>	<b>1.89</b>
<b>FFO I</b>	<b>128</b>	<b>160</b>	<b>178</b>	<b>198</b>	<b>212</b>	<b>227</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>1.36</b>
<b>Y-Y Growth</b>						
Operating cash flow	38.3%	27.8%	0.5%	11.0%	16.6%	5.9%
Adjusted EBITDA / share	34.5%	15.0%	3.0%	9.8%	8.2%	5.9%
FFO I	68.2%	25.1%	11.2%	11.1%	7.1%	7.0%
FFOPS I	52.8%	3.9%	6.5%	7.1%	6.4%	7.0%

**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...29	↓	↓	↓	↓
30	21 March 2019	€21.92	Buy	€28.00
31	7 May 2019	€21.22	Buy	€28.00
32	21 May 2019	€22.64	Buy	€28.00
33	Today	€23.44	Buy	€28.00

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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 provided investment banking or consulting services for the analysed company within the past twelve months for which remuneration was or was to be paid;
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**INFORMATION PURSUANT TO SECTION 64 OF THE GERMAN SECURITIES TRADING ACT [WPHG] (2ND FINANOG) OF 23 JUNE 2017, DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 15 MAY 2014 ON MARKETS IN FINANCIAL INSTRUMENTS AND AMENDING DIRECTIVE 2002/92/EC AND DIRECTIVE 2011/61/EU, ACCOMPANIED BY THE MARKETS IN FINANCIAL INSTRUMENTS REGULATION (MIFIR, REG. EU NO. 600/2014)**

First Berlin notes that it has concluded a contract with the issuer to prepare financial analyses and is paid for that by the issuer. First Berlin makes the financial analysis simultaneously available for all interested security financial services companies. First Berlin thus believes that it fulfils the requirements of section 64 WpHG for minor non-monetary benefits.

### 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:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

<sup>1</sup> The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

#### 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.

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