

# GRAND CITY Properties S.A.

Luxembourg / Real Estate

Frankfurt

Bloomberg: GYC GR

ISIN: LU0775917882

Update

**RATING****PRICE TARGET**

Return Potential

Risk Rating

**BUY****€ 28.00**

35.5%

Medium

## GOOD BUYING OPPORTUNITY ON SHARE WEAKNESS

Grand City shares have retreated some 14% from recent highs during the market correction. We think this is overdone, given our unchanged positive views traced to strong operations and a solid German residential market. GCP boasts a well diversified portfolio with >76k units that features ~20% reversionary upside (including Berlin rent cap) to drive steady organic growth this year alongside opportunistic expansion. We expect the company to report good full year results on 18 March in line with FBe targets. Guidance calls for FFOPS 1 of €1.26 to €1.27 and DPS of €0.82 to €0.83. We reiterate our Buy rating and €28 price target.

**Share price weakness looks overstated** Global bourses continue to be routed on recessionary fears traced to covid-19, while volatility (DAX New Volatility Index) is at levels last seen during the 2007 financial crises. GYC shares are some 14% off mid-February highs and plunged as low as €19.6 intraday yesterday. We think this is overdone and only regard a prolonged global economic slowdown as a threat to our growth assumptions. However, we expect covid-19 concerns to moderate anon, and for property stocks to bounce back quickly, given their good fundamentals, the supportive interest rate environment, and high dividend yields to reward investors. Plus, we think the residential market is far less vulnerable to economic downturns than commercial sectors. We therefore regard investment in German residential property stocks as a virtual safe-haven investment for risk prudent portfolios that also seek attractive yields.

**Proven ability to extract value** With acquisition-driven models currently out of favour with property investors, we continue to regard Grand City's operational competence as a differentiating factor in the residential sector. The company has steadily increased rents and compressed vacancy over the years, and there is still plenty of upside. Currently, GCP's residential portfolio—factoring in the Berlin rent cap—contains 20% further operational upside to €425m through rent and vacancy optimisation. This figure climbs another. . . (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018	2019E	2020E
Rental income (€m)	333.50	435.67	494.89	544.98	591.36	627.82
Y/Y growth	53.8%	30.6%	13.6%	10.1%	8.5%	6.2%
Adj. EBITDA (€m)	177.27	224.73	247.98	275.53	296.57	312.97
Net income <sup>2</sup> (€m)	343.9	542.5	534.6	488.6	395.0	412.9
EPS (diluted) (€)	2.35	3.25	3.06	2.76	2.22	2.31
EPRA NAV <sup>1</sup> (€m)	2,402.09	3,208.45	3,993.06	4,783.07	5,172.02	5,531.35
DPS (€)	0.25	0.68	0.73	0.64	0.82	0.87
FFO 1 (€m)	128.04	160.12	178.01	197.85	211.80	224.24
FFOPS 1 (€)	1.01	1.05	1.12	1.19	1.27	1.34
Liquid assets (€m)	388.93	630.27	401.48	765.04	1,014.78	912.92

<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 09 Mar 2020

Closing Price	€ 20.66
Shares outstanding	167.92m
Market Capitalisation	€ 3469.23m
52-week Range	€ 19.29 / 23.94
Avg. Volume (12 Months)	235,395

Multiples	2018	2019E	2020E
P/FFO 1	17.3	16.3	15.5
P/EPRA NAV	0.7	0.7	0.6
FFO 1 Yield	5.8%	6.1%	6.5%
Div. Yield	3.1%	4.0%	4.2%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Sep 2019

Liquid Assets	€ 898.00m
Current Assets	€ 1,883.60m
EPRA NAV <sup>1</sup>	€ 5,012.00m
Total Assets	€ 9,774.40m
Current Liabilities	€ 542.70m
Total Equity	€ 4,858.10m

<sup>1</sup> including perpetual notes

### SHAREHOLDERS

Edolaxia Ltd.	39.0%
Free float	61.0%



. . . 8% to €453m assuming no rent freeze in the German capital (see FB note of 20 November 2019). We expect this embedded upside to be the primary earnings and value driver over the near term until market conditions become more favourable for acquisition growth. We expect the company to continue its cash recycling strategy that culled the portfolio of non-core, mature assets last year and boosted investments in London. Grand City began investing in the British capital in 2018 and reported GAV of €0.8bn (10% of portfolio) as of 9M/19. We look for the company to be a net buyer in 2020, while Germany remains the focus.

## VALUATION

in €m	2019E	2020E	2021E	2022E	TV
<b>EBITDA</b>	297	313	330	347	351
(+) Revaluations	342	322	312	260	54
(+) Investment income	2	2	2	2	2
(-) Tax expense	96	95	97	91	61
<b>NOPAT</b>	<b>544</b>	<b>541</b>	<b>547</b>	<b>518</b>	<b>346</b>
<b>Total assets</b>	<b>9,747</b>	<b>10,196</b>	<b>10,455</b>	<b>11,097</b>	<b>11,097</b>
(-) Current liabilities	307	327	339	355	355
(+) Current financial debt	22	22	22	22	22
(-) Cash	853	751	478	606	606
(+) Deferred taxes	541	588	635	681	681
<b>Capital employed (CE)</b>	<b>9,150</b>	<b>9,729</b>	<b>10,294</b>	<b>10,838</b>	<b>10,838</b>
Average CE	8,805	9,439	10,011	10,566	10,838
ROCE	6.2%	5.7%	5.5%	4.9%	3.2%
WACC	3.1%	3.1%	3.1%	3.1%	3.1%
ROCE-WACC	3.1%	2.6%	2.4%	1.8%	0.1%
Economic Profit	273	250	239	192	11
<b>NPV</b>	<b>273</b>	<b>243</b>	<b>226</b>	<b>176</b>	<b>501</b>
<b>Fair value calculation</b>					
<b>Total return</b>	<b>1,419</b>				
(+) EPRA NAV (2018)	3,753				
(-) Dividend to be paid	107				
<b>Equity value</b>	<b>5,064</b>				
Diluted SO (m)	181				
<b>Fair value per share (€)</b>	<b>28.00</b>				
<b>Valuation metrics</b>					
Price target (€)	28.00	28.00	28.00	28.00	
Share price (€)	20.66	20.66	20.66	20.66	
Return potential	35.5%	35.5%	35.5%	35.5%	
Dividend yield	4.0%	4.2%	4.5%	4.6%	
<b>Total return potential</b>	<b>39.5%</b>	<b>39.7%</b>	<b>40.0%</b>	<b>40.1%</b>	
FFOPS 1 yield	5.8%	6.1%	6.5%	6.9%	
DPS (€)	0.82	0.87	0.93	0.92	



## 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>384</b>	<b>408</b>
<b>Rental and operating income</b>	<b>333</b>	<b>436</b>	<b>495</b>	<b>545</b>	<b>591</b>	<b>628</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>591</b>	<b>628</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	-284	-303
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>638</b>	<b>634</b>
Finance expenses	-26	-36	-40	-46	-49	-51
Other financial results	0	-11	-43	-36	-21	0
<b>Pre-tax income (EBT)</b>	<b>460</b>	<b>775</b>	<b>786</b>	<b>698</b>	<b>569</b>	<b>584</b>
Tax and deferred tax expenses	-66	-122	-146	-115	-91	-86
Minority interests	-35	-88	-80	-64	-50	-52
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>395</b>	<b>413</b>
Basic EPS (€)	2.71	3.56	3.35	2.95	2.36	2.46
Diluted EPS (€)	2.35	3.25	3.06	2.76	2.22	2.31
<b>Adjusted EBITDA</b>	<b>177</b>	<b>225</b>	<b>248</b>	<b>276</b>	<b>297</b>	<b>313</b>
<b>Ratios</b>						
Adjusted EBITDA margin	53.2%	51.6%	50.1%	50.6%	50.2%	49.9%
Tax rate	12.8%	11.9%	-11.3%	-10.8%	11.0%	11.0%
<b>Expenses as % of revenues</b>						
Property expenses	45.4%	46.8%	48.3%	48.2%	48.0%	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%	8.5%	6.2%
Total revenues	44.1%	32.7%	12.2%	9.7%	8.5%	6.2%
Operating income	41.9%	69.3%	5.5%	-10.2%	-18.2%	-0.6%
Adjusted EBITDA	58.3%	26.8%	10.3%	11.1%	7.6%	5.5%
Net income/ loss	67.3%	57.7%	-1.5%	-8.6%	-19.2%	4.5%
<b>Funds from Operations (FFO)</b>						
<b>Operating profit</b>	<b>486</b>	<b>823</b>	<b>868</b>	<b>780</b>	<b>638</b>	<b>634</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>640</b>	<b>636</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>297</b>	<b>313</b>
Financial expense	-26	-36	-40	-46	-49	-51
Tax	-23	-27	-28	-30	-33	-34
Minorities	-1	-1	-2	-2	-4	-4
<b>FFO 1</b>	<b>128</b>	<b>160</b>	<b>178</b>	<b>198</b>	<b>212</b>	<b>224</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>136</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>1,523</b>	<b>1,444</b>
Cash and cash equivalents	236	449	312	603	853	751
Traded securities at fair value though P&L	153	181	89	162	162	162
Trade and other receivables	226	220	260	319	356	378
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>9,747</b>	<b>10,196</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>338</b>	<b>359</b>
Short-term debt	55	29	62	22	22	22
Trade and other payables	190	252	267	242	272	290
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>4,371</b>	<b>4,440</b>
Long-term debt	792	897	919	846	530	530
Convertible and straight bonds	1,168	1,478	1,810	2,450	3,188	3,202
Deferred taxes	239	326	500	523	581	633
Other LT liabilities	40	50	59	69	72	75
Minority interests	142	197	364	409	460	512
<b>Shareholders' equity</b>	<b>2,030</b>	<b>2,868</b>	<b>3,485</b>	<b>4,258</b>	<b>4,578</b>	<b>4,886</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>9,747</b>	<b>10,196</b>
<b>Ratios</b>						
Current ratio (x)	2.26	3.04	2.15	4.04	4.50	4.02
Equity ratio	46.3%	49.8%	51.3%	52.7%	51.7%	52.9%
EPRA NAV <sup>1</sup> (€m)	2,402	3,208	3,993	4,783	5,172	5,531
Net debt (€m)	1,626	1,783	2,393	2,560	2,725	2,841
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	9.2	9.1
Interest cover (x)	6.9	6.2	6.2	6.0	6.1	6.2
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%	9.5%	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>478</b>	<b>498</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	69	51
Tax result	66	122	146	115	91	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>297</b>	<b>313</b>
Inventories - trading properties	-1	2	-6	-6	1	-1
Trade & other receivables	-25	-6	-39	-38	-37	-22
Trade & other payables	20	3	19	18	30	18
Provisions for other liabilities	5	-6	3	3	2	2
Tax paid	-19	-19	-23	-28	-33	-34
<b>Net cash flow from operating activities</b>	<b>157</b>	<b>201</b>	<b>202</b>	<b>225</b>	<b>260</b>	<b>275</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	423	14
Equity financing, net	640	171	176	312	0	0
Other financing activities	-24	-44	-457	-385	-128	-138
Net paid financing expenses	-33	-46	-47	-56	-49	-51
<b>Cash flow from financing</b>	<b>1,023</b>	<b>569</b>	<b>269</b>	<b>786</b>	<b>246</b>	<b>-175</b>
<b>Net cash flows</b>	<b>-34</b>	<b>213</b>	<b>-137</b>	<b>291</b>	<b>250</b>	<b>-102</b>
Cash, start of the year	270	236	449	312	603	853
<b>Cash, end of the year</b>	<b>236</b>	<b>449</b>	<b>312</b>	<b>603</b>	<b>853</b>	<b>751</b>
<b>Adjusted EBITDA / share (€)</b>	<b>1.27</b>	<b>1.46</b>	<b>1.50</b>	<b>1.65</b>	<b>1.77</b>	<b>1.86</b>
<b>FFO I</b>	<b>128</b>	<b>160</b>	<b>178</b>	<b>198</b>	<b>212</b>	<b>224</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>1.34</b>
<b>Y-Y Growth</b>						
Operating cash flow	38.3%	27.8%	0.5%	11.0%	15.6%	6.0%
Adjusted EBITDA / share	34.5%	15.0%	3.0%	9.8%	6.9%	5.5%
FFO I	68.2%	25.1%	11.2%	11.1%	7.0%	5.9%
FFOPS I	52.8%	3.9%	6.5%	7.1%	6.0%	5.5%

**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...32	↓	↓	↓	↓
33	6 June 2019	€23.44	Buy	€28.00
34	20 August 2019	€20.46	Buy	€28.00
35	20 November 2019	€21.44	Buy	€28.00
36	Today	€20.66	Buy	€28.00

**Authored by: Ellis Acklin, Senior Financial 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**

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First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], 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.

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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:

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.

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