

GRAND CITY Properties S.A.

Luxembourg / Real Estate

Frankfurt

Bloomberg: GYC GR

ISIN: LU0775917882

Update

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 27.50**

34.7%

Medium

DISCOUNT TO NAV LOOKS OVERDONE

We think the GCP share price fails to reflect the company's steady operational performance. GCP has weathered pandemic and regulatory storms over the past year but the stock still trades below pre-virus levels. In our view, a supportive residential market and improved portfolio quality will pave the way for solid growth in 2021. We expect investors to be rewarded with good FFO 1 and dividend yields as management unlock embedded portfolio upside and comb the market for attractive deals. We remain Buy-rated on GCP with a €27.5 price target.

Aiming to build long-term value Management continually explore options for putting the company's health liquidity position (YE20 FBe: ~€2bn) to work. To capitalise on the sizable share price discount to NAV (~19%) and create shareholder value, Grand City recently offered to buy back up to 12.5m shares through a public share purchase against payment in the price range of €20.00 to €21.25 per share. Buyback results were announced 17 February. Valid tenders for 3.371m shares were received at a final purchase price of €21.25 / share. We interpret the low tender volume as a sign of investor confidence in the company's ability to build long-term value through operations. GCP's 2020 operational performance included some €850m of non-core disposals at a premium to book value to boost liquidity. Given the steep share price discount to NAVPS, the buyback was a no-brainer and will help boost future per share KPIs.

Discount to NAV appears overdone German residential peers trade above or at pre-covid-19 levels, thanks to the high resilience of their residential portfolios. But Grand City still trades ~15% beneath pre-virus peaks. Lower FFO and NAV growth vs peers help explain some of the disparity. And we note GCP culled its portfolio of lower performing assets last year (some 13k flats), which reined in some of the growth. Consequently, margins have incrementally ticked up, and better portfolio quality sets up improved performance going forward. The stock also trades at ~19% discount to 9M/20 NAVPS (€25.1) vs a 0.7% mean discount for rivals, but several factors suggest the variance is overdone. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019	2020E	2021E
Rental income (€m)	435.67	494.89	544.98	560.30	549.81	569.40
Y/Y growth	30.6%	13.6%	10.1%	2.8%	-1.9%	3.6%
Adj. EBITDA (€m)	224.73	247.98	275.53	297.66	309.27	320.29
Net income ² (€m)	542.5	534.6	488.6	406.9	447.4	404.3
EPS (diluted) (€)	3.25	3.06	2.76	2.29	2.45	2.21
EPRA NAV ¹ (€m)	3208.45	3993.06	4783.07	5150.48	5774.81	6088.17
DPS (€)	0.68	0.73	0.64	0.82	0.82	0.84
FFO 1 (€m)	160.12	178.01	197.85	211.97	215.61	222.97
FFOPS 1 (€)	1.05	1.12	1.19	1.27	1.28	1.30
Liquid assets (€m)	630.27	401.48	765.04	1,069.46	1,996.80	1,639.87

¹ including perpetual notes ²after 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.

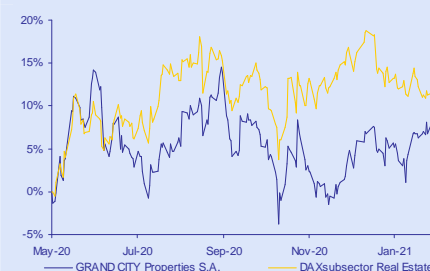
MARKET DATA

As of 19 Feb 2021

Closing Price	€ 20.42
Shares outstanding	171.86m
Market Capitalisation	€ 3509.38m
52-week Range	€ 14.28 / 23.94
Avg. Volume (12 Months)	318,344

Multiples	2019	2020E	2021E
P/FFO 1	16.5	16.4	16.1
P/EPRA NAV	0.7	0.6	0.6
FFO 1 Yield	6.1%	6.1%	6.2%
Div. Yield	4.0%	4.0%	4.1%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2020

Liquid Assets	€ 1,336.00m
Investment properties	€ 7,842.00m
EPRA NAV ¹	€ 5,351.00m
Total Assets	€ 10,731.00m
Current Liabilities	€ 559.00m
Total Equity	€ 5212.00m

¹ including perpetual notes

SHAREHOLDERS

Edolaxia Ltd.	40.0%
Free float	60.0%



The residential property boom is not over Despite the pandemic, 2020 German residential rents are thought to have risen 2.0% Y/Y according to data from Bulwiengesa. This topped both consumer price inflation (0.5%) and rent inflation (1.4%). Plus, the resilience of the sector should be considered against regulatory headwinds designed brake rising rents. Berlin rents still climbed some 2% despite the capital's highly contested rent cap put in place in 2020.

We expect another strong year for the residential sector for one simple reason: an acute housing shortage. And we do not expect this to end any time soon. While covid-19 issues stole the spotlight last year, the scarcity of living space did not improve and remains the key driver of the prolonged housing boom. New build is expected to again fall short of the regulator's 300k unit annual target and has failed to make a dent in the 1.9m shortage of affordable flats in Germany.

Reasons for a higher share GCP price As investors continue to grapple with pandemic worries, we think GCP equates to a safe haven alternative investment, particularly with bond markets reeling (FBe 2020 dividend yield: 4.2%). Key factors supporting our view are: (1) strategic focus on value-add assets providing good operating upside; (2) sizable portfolio with 63k units diversified across German metropolises and London; (3) excellent access to the capital markets and financing further demonstrated by the €0.7bn perpetual note issuance in December; (4) a strong balance sheet and gearing profile that stacks up favourably against peers; and (5) good reversionary upside to drive earnings growth.

Attractive operational upside Currently, GCP's residential portfolio—factoring in the Berlin rent cap—contains 20% reversionary upside to €397m through rent and vacancy optimisation. This figure climbs another 7% to €424m assuming no rent freeze in the German capital. 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-led growth. The company restocked the portfolio with some €380m in new properties after the lockdowns last year with Berlin and London spearheading expansion.



VALUATION MODEL

We contend that the 19% discount to NAV provides an excellent opportunity to buy Grand City shares. After a quiet 2020 in which acquisition activity was largely muted by GCP, and the portfolio was culled of mature low-performing assets, we expect an uptick in growth this year to help reduce the NAV discount. A highly supportive market environment also factors into our optimism. We remain Buy-rated on Grand City with a €27.5 price target.

in €m	2020E	2021E	2022E	2023E	TV
EBITDA	309	320	339	358	361
(+) Revaluations	406	298	289	287	56
(+) Investment income	2	0	0	0	0
(-) Tax expense	108	93	94	97	63
NOPAT	610	526	534	548	355
Total assets	11,120	11,323	11,921	12,421	12,421
(-) Current liabilities	396	412	435	458	458
(+) Current financial debt	33	33	33	33	33
(-) Cash	1,733	1,376	1,419	1,372	1,372
(+) Deferred taxes	611	655	698	739	739
Capital employed (CE)	9,635	10,223	10,798	11,364	11,364
ROCE	6.5%	5.3%	5.1%	4.9%	3.1%
WACC	3.1%	3.1%	3.1%	3.1%	3.1%
ROCE-WACC	3.4%	2.2%	2.0%	1.9%	0.0%
Economic Profit	321	220	209	206	4
NPV	321	214	198	189	187
Fair value calculation					
Total return	1,108				
(+) EPRA NAV (2019)	4,120				
(-) Dividend paid	138				
Equity value	5,091				
Diluted SO (m)	185				
Fair value per share (€)	27.5				
Valuation metrics	2020E	2021E	2022E	2023E	
Price target (€)	27.50	27.50	27.50	27.50	
Share price (€)	20.42	20.42	20.42	20.42	
Return potential	34.7%	34.7%	34.7%	34.7%	
Dividend yield	4.0%	4.1%	4.1%	4.4%	
Total return potential	38.7%	38.7%	38.8%	39.0%	
FFOPS 1 yield	6.3%	6.4%	6.6%	6.7%	
DPS (€)	0.82	0.84	0.84	0.89	



INCOME STATEMENT

All figures in EURm	2016	2017	2018	2019	2020E	2021E
Net rent	285	328	364	383	371	384
Rental and operating income	436	495	545	560	550	569
Revenue from sale of buildings	7	2	0	0	0	0
Revenue	443	497	545	560	550	569
Property revaluations & capital gains	598	616	507	401	406	298
Result from equity-accounted investees	1	6	1	0	2	0
Property expenses	-204	-239	-263	-256	-231	-239
Cost of buildings sold	-5	-1	0	0	0	0
Administration expenses	-10	-11	-11	-13	-12	-13
Operating income (EBIT)	823	868	780	693	714	616
Finance expenses	-36	-40	-46	-45	-57	-60
Other financial results	-11	-43	-36	-33	-30	0
Pre-tax income (EBT)	775	786	698	615	627	556
Tax and deferred tax expenses	-122	-146	-115	-121	-101	-86
Minority interests	-88	-80	-64	-53	-46	-41
Hybrid note investors	-23	-24	-30	-33	-33	-24
Net income	542	535	489	407	447	404
Basic EPS (€)	3.56	3.35	2.95	2.43	2.65	2.35
Diluted EPS (€)	3.25	3.06	2.76	2.29	2.45	2.21
Adjusted EBITDA	225	248	276	298	309	320
Ratios						
Adjusted EBITDA margin	51.6%	50.1%	50.6%	53.1%	56.3%	56.3%
Tax rate	11.9%	-11.3%	-10.8%	-12.5%	11.5%	11.5%
Expenses as % of revenues						
Property expenses	46.8%	48.3%	48.2%	45.6%	42.0%	42.0%
Administration expenses	2.2%	2.2%	1.9%	2.3%	2.3%	2.3%
Y-Y Growth						
Rental and operating income	30.6%	13.6%	10.1%	2.8%	-1.9%	3.6%
Total revenues	32.7%	12.2%	9.7%	2.8%	-1.9%	3.6%
Operating income	69.3%	5.5%	-10.2%	-11.1%	3.1%	-13.8%
Adjusted EBITDA	26.8%	10.3%	11.1%	8.0%	3.9%	3.6%
Net income/ loss	57.7%	-1.5%	-8.6%	-16.7%	9.9%	-9.6%
Funds from Operations (FFO)						
Operating profit	823	868	780	693	714	616
Depreciation and amortisation	2	2	3	4	3	3
EBITDA	825	871	782	697	717	619
Capital gains, property revaluations and other	-598	-616	-507	-401	-406	-298
Result from disposal of trading properties	-2	0	0	0	0	0
Others	0	-6	0	2	-2	0
Adjusted EBITDA	225	248	276	298	309	320
Financial expense	-36	-40	-46	-45	-57	-60
Tax	-27	-28	-30	-37	-36	-37
Minorities	-1	-2	-2	-4	-1	-1
FFO 1	160	178	198	212	216	223
CapEx	-56	-67	-75	-76	-72	-75
AFFO	104	111	122	136	143	148



BALANCE SHEET

All figures in EURm	2016	2017	2018	2019	2020E	2021E
Current assets, total	1,028	796	1,238	1,629	2,587	2,244
Cash and cash equivalents	449	312	603	914	1,733	1,376
Traded securities at fair value through P&L	181	89	162	155	264	264
Trade and other receivables	220	260	319	342	377	390
Inventories - Trading property	27	12	17	16	13	13
Assets held for sale	150	123	136	201	201	201
Non-current assets, total	5,126	6,712	7,623	8,223	8,532	9,078
Equipment and intangible assets	16	20	24	27	30	33
Investment property	4,823	6,414	7,282	7,981	8,143	8,669
Equity accounted investees	118	37	26	21	113	113
Other LT assets	155	214	254	151	200	212
Deferred tax assets	15	28	37	42	47	51
Total assets	6,154	7,508	8,861	9,851	11,120	11,323
Current liabilities, total	338	371	306	454	396	412
Short-term debt	29	62	22	33	33	33
Trade and other payables	252	267	242	288	221	229
Other current liabilities	58	42	42	133	141	150
Long-term liabilities, total	2,750	3,288	3,887	4,431	5,089	4,971
Long-term debt	897	919	846	521	500	450
Convertible and straight bonds	1,478	1,810	2,450	3,195	3,805	3,681
Deferred taxes	326	500	523	592	657	706
Other LT liabilities	50	59	69	122	127	133
Minority interests	197	364	409	444	535	577
Shareholders' equity	2,868	3,485	4,258	4,523	5,099	5,363
Total consolidated equity and debt	6,154	7,508	8,861	9,851	11,120	11,323
Ratios						
Current ratio (x)	3.04	2.15	4.04	3.59	6.53	5.44
Equity ratio	50%	51%	53%	50%	51%	52%
EPRA NAV ¹ (€m)	3,208	3,993	4,783	5,150	5,775	6,088
Net debt (€m)	1,783	2,393	2,560	2,690	2,341	2,525
Net debt / equity (x)	0.6	0.7	0.6	0.6	0.5	0.5
Net debt / EBITDA (x)	7.9	9.7	9.3	9.0	7.6	7.9
Interest cover (x)	6.2	6.2	6.0	6.6	5.4	5.4
Loan-to-value (LTV)	35%	36%	34%	33%	28%	28%
Return on equity (ROE)	21.3%	16.6%	12.5%	9.9%	9.3%	7.9%

¹ including perpetual notes



CASH FLOW STATEMENT

All figures in EURm	2016	2017	2018	2019	2020E	2021E
Net income	653	639	583	493	526	470
Depreciation and amortisation	2	2	3	4	3	3
Profit from equity accounted investees	-1	-6	-1	0	-2	0
Change in fair value of investment properties	-598	-616	-507	-401	-406	-298
Net finance expenses	47	83	82	78	87	60
Tax result	122	146	115	121	101	86
Others	1	1	1	2	0	0
Operating cash flow	227	248	276	298	309	320
Change in working capital	-7	-24	-23	-20	-89	3
Tax paid	-19	-23	-28	-28	-36	-37
Net cash flow from operating activities	201	202	225	249	185	287
Investment in fixed/intangible assets	-3	-6	-6	-7	-5	-6
Net property investments / disposals	-476	-374	-501	-194	244	-228
Acquisition of subsidiaries	-111	-324	-112	31	-45	0
Proceeds from investments in financial assets	33	95	-100	117	-158	-12
Cash flow from investing	-557	-608	-718	-53	36	-246
Debt financing, net	487	597	916	360	588	-173
Equity financing, net	171	176	312	-33	167	-24
Dividend paid	-38	-112	-79	-107	-71	-140
Other financing activities	-5	-345	-306	-55	-30	0
Net paid financing expenses	-46	-47	-56	-50	-57	-60
Cash flow from financing	569	269	786	115	597	-398
Net cash flows	213	-137	291	311	819	-357
Cash, start of the year	236	449	312	603	914	1,733
Cash, end of the year	449	312	603	914	1,733	1,376
Adjusted EBITDA / share (€)	1.46	1.50	1.65	1.77	1.80	1.86
FFO 1	160	178	198	212	216	223
FFOPS 1 (€)	1.05	1.12	1.19	1.27	1.28	1.30
Y-Y Growth						
Operating cash flow	27.8%	0.5%	11.0%	11.1%	-25.8%	54.8%
Adjusted EBITDA / share	15.0%	3.0%	9.8%	7.3%	1.5%	3.6%
FFO 1	25.1%	11.2%	11.1%	7.1%	1.7%	3.4%
FFOPS 1	3.9%	6.5%	7.1%	6.1%	0.8%	1.6%

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Anschrift:

First Berlin Equity Research GmbH
Mohrenstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B

UST-Id.: 251601797

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First Berlin Equity Research GmbH

Authored by: Ellis Acklin, Senior Analyst

All publications of the last 12 months were authored by Ellis Acklin.

Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin

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

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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 ¹	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%

¹ 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.

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...33	↓	↓	↓	↓
34	20 August 2019	€20.46	Buy	€28.00
35	20 November 2019	€21.44	Buy	€28.00
36	10 March 2020	€20.66	Buy	€28.00
37	20 March 2020	€16.04	Buy	€28.00
38	19 May 2020	€19.78	Buy	€27.50
39	18 August 2020	€20.72	Buy	€27.50
40	17 November 2020	€20.36	Buy	€27.50
41	15 December 2020	€19.91	Buy	€27.50
42	Today	€20.42	Buy	€27.50

INVESTMENT HORIZON

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