

GRAND CITY Properties S.A.

Luxembourg / Real Estate

Frankfurt

Bloomberg: GYC GR

ISIN: LU0775917882

2020 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 27.50**

27.4%

Medium

2020 GUIDANCE MET; SHARE BUY-BACK ANNOUNCED

Grand City (GCP) has published full year results and announced a share buy-back program. Headline figures were in line with FBe and 2020 guidance. FFOPS 1 (after perpetuals) matched the prior year figure at €1.07 despite high disposal activity, and the company wants to put its strong cash position (YE20: €1.7bn) to work and purchase up to €200m in stock this year. New 2021 guidance calls for 2% to 3% LFL net rent growth, and GCP will continue its opportunistic acquisition / disposal approach, while extracting ample embedded portfolio upside. We maintain our Buy rating and €27.5 price target.

Steady business momentum Operations continued their solid performance in Q4 thanks to a well diversified portfolio that has been able to absorb the dual impacts of the pandemic, and the Berlin rent cap. The 3% annualised decline in net rent is traced to property disposals (~€1bn). But this dip was offset by a 12% decline in property operating expenses after selling off properties saddled with higher cost structures. FFO 1 and FFOPS 1 after perpetual notes thus remained stable for the year (Table 1 overleaf). Enhanced ERPA reporting also showed solid upticks led by 3% NAVPS growth.

Looking ahead in 2021 GCP will follow a similar acquisition / disposal blueprint in 2021. The portfolio will be opportunistically restocked, while mature units will be considered for disposal to recycle cash. London remains a key growth target, thanks to GCP's good local network there. Overall, the German market continues to be defined by a wide demand / supply gap that limits acquisition opportunities. Management continue to believe that the Berlin rent cap will be overturned, since it has failed to solve housing shortage problems, while renters in the more affluent districts, such as Mitte, have benefited the most from capped / reduced rents. A Federal Court decision is expected sometime mid-year. However, 2021 guidance assumes that the Berlin rent cap remains in place until a final ruling. Meanwhile, we consider the risk of rent cap contagion across other German metropolises to be low, given the unique social, political, and regulatory makeup of the German capital. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020	2021E	2022E
Rental income (€m)	494.89	544.98	560.30	535.42	508.12	535.40
Y/Y growth	13.6%	10.1%	2.8%	-4.4%	-5.1%	5.4%
Adj. EBITDA (€m)	247.98	275.53	297.66	299.78	293.19	308.93
Net income ² (€m)	534.6	488.6	406.9	362.2	398.1	394.8
EPS (diluted) (€)	3.06	2.76	2.30	2.01	2.18	2.14
EPRA NAV ¹ (€m)	3327.19	3753.02	4120.43	4342.26	4656.55	5236.74
DPS (€)	0.73	0.64	0.82	0.82	0.81	0.84
FFO 1 ³ (€m)	153.76	167.59	178.97	182.21	184.47	199.02
FFOPS 1 ³ (€)	0.96	1.01	1.07	1.07	1.09	1.14
Liquid assets (€m)	401.48	765.04	1,069.46	1,697.91	1,539.14	1,402.30

¹ excluding perpetual notes ² after minority interests and hybrid investors ³ after perpetual adjustment

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.

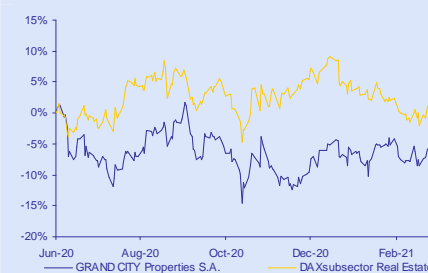
MARKET DATA

As of 16 Mar 2021

Closing Price	€ 21.58
Shares outstanding	171.86m
Market Capitalisation	€ 3708.74m
52-week Range	€ 14.28 / 22.48
Avg. Volume (12 Months)	307,920

Multiples	2020	2021E	2022E
P/FFO 1	20.1	19.8	18.9
P/EPRA NAV	0.9	0.8	0.7
FFO 1 Yield	5.0%	5.1%	5.3%
Div. Yield	3.8%	3.8%	4.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2020

Liquid Assets	€ 1,692.00m
Investment properties	€ 8,005.90m
EPRA NAV	€ 4,342.30m
Total Assets	€ 10,865.80m
Current Liabilities	€ 427.30m
Total Equity	€ 5,554.90m

SHAREHOLDERS

Edolaxia Ltd.	41.0%
Treasury	2.0%
Free float	57.0%



Building long-term value with buy back Grand City launched a share buy-back program on 16 March 2021 and plans to repurchase up to 10m shares with a maximum volume of €200m. This comes on the heels of last month's share repurchase, in which 3.371m shares were tendered at €21.25 / share against payment. The buy-back will run until 31 December 2021 and allow the company to capitalise on the discount to NAV. Proceeds from the profitable disposal strategy can thus be put to work to create more long-term value.

ANNUAL RESULT HIGHLIGHTS

Net rent dipped some 3% on the aforementioned €1bn disposals. Acquisition activities were shut down during the peak of the covid-19 crisis but resumed towards the end of June, resulting in a small H2 uptick. But the company was a net seller in 2020. Adjusted EBITDA and FFO 1 were able to offset the lower topline and remained stable Y/Y thanks to the improved portfolio quality and the lower cost basis.

Results were spurred by another good like-for-like (LFL) performance. GCP realised total LFL net rental growth of 1.8% comprising 0.9% occupancy increases and 0.9% in-place rent. The latter contains 0.2% indexation and 0.7% re-letting. Indexing was somewhat lower in 2020, due to solidarity gestures regarding rent increases.

Table 1: Full year results vs forecasts

in €m	Q4/20	Q4/20E	Variance	Q4/19	Variance	2020	2019	Variance
Rental income	134	143	-6.3%	142	-5.6%	535	560	-4.5%
Net rent	93	92	1.1%	98	-5.1%	372	383	-2.9%
Adjusted EBITDA	77	82	-6.1%	78	-1.3%	300	298	0.7%
margin	57%	57%	-	55%	-	56%	53%	-
FFO 1 (after perpetuals)	45	45	0.8%	44	3.6%	182	179	1.8%
FFOPS 1 (€) (after perpetuals)	0.26	0.26	1.2%	0.26	1.1%	1.07	1.07	0.3%

Source: First Berlin Equity Research; Grand City Properties

FFO 1, the key industry indicator for recurring operational cash flow, matched our estimate at €45m in Q4/20 and beat the prior year result by 1.1% equating to FFOPS 1 of €0.26. The company redefined FFO 1 to now include perpetual note attribution and reflect the revised EPRA Best Practice Recommendations. On a full year basis, FFO 1 rose 1.8% Y/Y to €182m or €1.07 per share (+0.3% Y/Y). FFOPS 1 corresponds to a 5.2% yield.

FFO 2 amounted to €484m in 2020 (2019: €348m). Grand City disposed of €974m in non-core and mature assets during 2020 as part of its cash recycling strategy. Sold properties encompassed around 16k flats in secondary locations in NRW and Bavaria. Disposals generated a 45% margin over total acquisition costs including CapEx. AFFO (adjusted funds from operations), which strips out repositioning CapEx as a measure of recurring operational cash flows, increased to €120m vs €103m last year (+16%).

The portfolio value (€ / m²) hit 1,858 compared to 1,672 at H1 and 1,543 at YE19. The optimised NRW portfolio now features a 33% Cologne (Germany's fourth largest city) component vs 24% at the end of 2019. The London holdings now account for some 14% of portfolio value. GCP reiterated that London remains very attractive and covers roughly 50% of the overall €0.5bn acquisition pipeline. Management also hinted that the London footprint could grow < 25% of the portfolio in the future. This is up on prior indications of ~ 20%



EPRA Best Practices Recommendations (BPR) EPRA NAV totalled €4.3bn (€25.2 / share) compared to €4.1bn at year-end 2019 (€24.5 / share, +2.8%). The increase stems from net profits during 2020. The company also reported first time NRV (net reinstatement value), NTV (net tangible assets), and NDV (net disposal value) measurables in expanded performance reporting as prescribed by the revised EPRA BPR (table 2).

The EPRA NRV metric assumes assets are never sold and aims to show the value required to rebuild the entity, while EPRA NTV reflects a company's tangible assets and assumes assets are bought and sold. EPRA NDV shows shareholder value in a disposal scenario, whereby deferred tax and financial instruments are calculated net of any resulting tax.

Table 2: Expanded EPRA BPR reporting

in €m	2020	2019	Variance
EPRA NRV	4,776	4,571	4.5%
NRVPS (€)	27.8	27.2	2.2%
EPRA NTA	4,566	4,358	4.8%
NTAPS (€)	26.5	25.9	2.3%
EPRANDV	3,452	3,323	3.9%
NDVPS (€)	20.1	19.8	1.5%

Source: First Berlin Equity Research; Grand City Properties

Balance sheet ratios remain steady Grand City exited the year with cash & liquid assets of ~€1.7bn giving management good financial flexibility to pursue acquisition opportunities, optimise the debt portfolio, and buffer against economic volatility. Net debt stood at €2.5bn vs €2.7bn at YE19, and the debt structure features an LTV of 31%, 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 4.6x and 5.7x respectively at the end of Q4. The latter is comfortably above the $\geq 2.0x$ covenant. The capital structure also includes €6.7bn in unencumbered assets or 82% of portfolio value.

Table 3: Financial highlights

in €m	2020	2019	Variance
Cash & liquid assets	1,692	1,063	59%
Investment property ¹	8,022	7,972	1%
Total equity	5,555	4,967	12%
EPRA NAV	4,342	4,120	5%
Interest bearing debt	437	533	-18%
Straight bonds	3,361	2,920	15%
Convertible bond	278	275	1%
Loan-to-Value (LTV)	31%	33%	-
Equity ratio	51%	50%	-

¹ including inventories-trading property

Source: First Berlin Equity Research; Grand City Properties



LOOKING FOR ANOTHER SOLID YEAR

Table 4: 2021 Guidance vs FBe

	Unit	2020 Guidance	FBe 2021
FFO 1 (after perpetuals)	€m	183 - 192	184
FFOPS 1 (after perpetuals)	€	1.08 - 1.13	1.09
DPS	€	0.81 - 0.85	0.82
LFL net rent growth	%	2.0 - 3.0	2.5
LTV	%	< 45	30

Source: First Berlin Equity Research; Grand City Properties

Current portfolio remains primary growth driver The rental income (RI) run rate was €340m as of YE20. Management noted 18% embedded RI upside to €400m in the results presentation, or 25% (€425m) assuming the Berlin rent cap is overturned. We continue to factor LFL rental growth of 2.5%, which is the mean of the guided 2% to 3% range and believe this will remain at this level over the mid-term as long as the Berlin rent cap remains in place. Based on the communicated €500m pipeline, we have modelled some €70m in net acquisitions this year. The company communicated post-reporting disposals and acquisitions of some €200m each and continues to have an acquisition pipeline of around €0.5bn with London remaining a focus. Our rating remains Buy with an unchanged €27.5 price target.



VALUATION MODEL

in €m	2021E	2022E	2023E	2024E	TV
EBITDA	293	309	327	345	348
(+) Revaluations	303	282	280	271	87
(+) Investment income	3	3	3	3	3
(-) Tax expense	90	89	91	93	66
NOPAT	510	505	518	526	372
Total assets	11,114	11,534	11,959	12,227	12,227
(-) Current liabilities	312	327	344	361	361
(+) Current financial debt	37	37	37	37	37
(-) Cash	1,253	1,117	991	720	720
(+) Deferred taxes	629	670	710	748	748
Capital employed (CE)	10,215	10,797	11,371	11,930	11,930
ROCE	5.1%	4.8%	4.7%	4.5%	3.1%
WACC	3.1%	3.1%	3.1%	3.1%	3.1%
ROCE-WACC	2.0%	1.7%	1.6%	1.4%	0.0%
Economic Profit	202	181	176	167	4
NPV	197	171	162	149	183
Fair value calculation					
Total return	862				
(+) EPRA NAV (2020)	4,342				
(-) Dividend paid	140				
Equity value	5,064				
Diluted SO (m)	184				
Fair value per share (€)	27.5				
Valuation metrics					
Price target (€)	27.50	27.50	27.50	27.50	
Share price (€)	21.58	21.58	21.58	21.58	
Return potential	27.4%	27.4%	27.4%	27.4%	
Dividend yield	3.8%	4.0%	4.1%	4.6%	
Total return potential	31.1%	31.4%	31.6%	32.0%	
FFOPS 1 yield	5.7%	5.9%	6.1%	6.7%	
DPS (€)	0.82	0.86	0.89	0.98	



INCOME STATEMENT

All figures in EURm	2017	2018	2019	2020	2021E	2022E
Net rent	328	364	383	372	348	367
Rental and operating income	495	545	560	535	508	535
Property revaluations & capital gains	616	507	401	343	303	282
Result from equity-accounted investees	6	1	0	4	3	3
Property expenses	-239	-263	-256	-226	-208	-219
Cost of buildings sold	-1	0	0	0	0	0
Administration expenses	-11	-11	-13	-11	-10	-10
Operating income (EBIT)	868	780	693	645	597	591
Finance expenses	-40	-46	-45	-53	-54	-54
Other financial results	-43	-36	-33	-46	0	0
Pre-tax income (EBT)	786	698	615	547	543	537
Tax and deferred tax expenses	-146	-115	-121	-93	-79	-77
Minority interests	-80	-64	-53	-54	-46	-46
Hybrid note investors	-24	-30	-33	-33	-24	-24
Net income	535	489	407	367	393	389
Basic EPS (€)	3.35	2.95	2.43	2.13	2.32	2.23
Diluted EPS (€)	3.06	2.76	2.30	2.01	2.19	2.15
Adjusted EBITDA	248	276	298	300	293	309
Ratios						
Adjusted EBITDA margin	50.1%	50.6%	53.1%	56.0%	57.7%	57.7%
Tax rate	-11.3%	-10.8%	-12.5%	-10.5%	10.0%	10.0%
Expenses as % of revenues						
Property expenses	48.3%	48.2%	45.6%	42.3%	40.9%	40.9%
Administration expenses	2.2%	1.9%	2.3%	2.0%	1.9%	1.9%
Y-Y Growth						
Rental and operating income	13.6%	10.1%	2.8%	-4.4%	-5.1%	5.4%
Total revenues	12.2%	9.7%	2.8%	-4.4%	-5.1%	5.4%
Operating income	5.5%	-10.2%	-11.1%	-6.9%	-7.5%	-1.0%
Adjusted EBITDA	10.3%	11.1%	8.0%	0.7%	-2.2%	5.4%
Net income/ loss	-1.5%	-8.6%	-16.7%	-9.8%	6.9%	-0.8%
Funds from Operations (FFO)						
Operating profit	868	780	693	640	597	591
Depreciation and amortisation	2	3	4	5	3	3
EBITDA	871	782	697	645	600	594
Property revaluations & capital gains	-616	-507	-401	-343	-303	-282
Others	-6	0	2	-2	-3	-3
Adjusted EBITDA	248	276	298	300	293	309
Financial expense	-40	-46	-45	-53	-54	-54
Tax	-28	-30	-37	-31	-29	-31
Minorities	-2	-2	-4	-1	-1	-1
FFO 1 (before perpetuals)	178	198	212	215	209	223
Perpetual note adjustment	-24	-30	-33	-33	-24	-24
FFO 1	154	168	179	182	184	199
CapEx	-67	-75	-76	-62	-66	-69
AFFO	87	92	103	120	119	130



BALANCE SHEET

All figures in EURm	2017	2018	2019	2020	2021E	2022E
Current assets, total	796	1,238	1,629	2,264	2,054	1,937
Cash and cash equivalents	312	603	914	1,412	1,253	1,117
Traded securities at fair value though P&L	89	162	155	286	286	286
Trade and other receivables	260	319	342	395	348	367
Inventories - Trading property	12	17	16	16	11	12
Assets held for sale	123	136	201	155	155	155
Non-current assets, total	6,712	7,623	8,223	8,602	9,061	9,598
Equipment and intangible assets	20	24	27	27	30	33
Investment property	6,414	7,282	7,981	8,043	8,469	8,970
Equity accounted investees	37	26	21	108	111	114
Other LT assets	214	254	151	373	395	419
Deferred tax assets	28	37	42	51	56	61
Total assets	7,508	8,861	9,851	10,866	11,114	11,534
Current liabilities, total	371	306	454	427	312	327
Short-term debt	62	22	33	147	37	37
Trade and other payables	267	242	288	209	199	210
Other current liabilities	42	42	133	71	76	80
Long-term liabilities, total	3,288	3,887	4,431	4,884	4,957	4,787
Long-term debt	919	846	521	427	420	460
Convertible and straight bonds	1,810	2,450	3,195	3,639	3,663	3,399
Deferred taxes	500	523	592	634	684	731
Other LT liabilities	59	69	122	183	190	198
Minority interests	364	409	444	535	581	627
Shareholders' equity	3,485	4,258	4,523	5,020	5,264	5,793
Total consolidated equity and debt	7,508	8,861	9,851	10,866	11,114	11,534
Ratios						
Current ratio (x)	2.15	4.04	3.59	5.30	6.59	5.93
Equity ratio	51%	53%	50%	51%	53%	56%
EPRA NAV (€m)	3,327	3,753	4,120	4,342	4,651	5,226
Net debt (€m)	2,393	2,560	2,690	2,521	2,580	2,493
Net debt / equity (x)	0.7	0.6	0.6	0.5	0.5	0.4
Net debt / EBITDA (x)	9.7	9.3	9.0	8.4	8.8	8.1
Interest cover (x)	6.2	6.0	6.6	5.7	5.4	5.7
Loan-to-value (LTV)	36%	34%	33%	31%	30%	27%
Return on equity (ROE)	16.6%	12.5%	9.9%	8.1%	7.9%	7.2%



CASH FLOW STATEMENT

All figures in EURm	2017	2018	2019	2020	2021E	2022E
Net income	639	583	493	449	463	460
Depreciation and amortisation	2	3	4	5	3	3
Profit from equity accounted investees	-6	-1	0	-4	-3	-3
Change in fair value of investment properties	-616	-507	-401	-343	-303	-282
Net finance expenses	83	82	78	98	54	54
Tax result	146	115	121	93	79	77
Others	1	1	2	2	0	0
Operating cash flow	248	276	298	300	293	309
Change in working capital	-24	-23	-20	-29	48	-2
Tax paid	-23	-28	-28	-28	-29	-31
Net cash flow from operating activities	202	225	249	242	312	276
Investment in fixed/intangible assets	-6	-6	-7	-7	-5	-6
Net property investments / disposals	-374	-501	-194	-492	-123	-220
Acquisition of subsidiaries	-324	-112	31	547	0	0
Proceeds from investments in financial assets	95	-100	117	-439	-22	-24
Cash flow from investing	-608	-718	-53	-392	-150	-249
Debt financing, net	597	916	360	559	-94	54
Equity financing, net	176	312	-33	207	-33	-24
Dividend paid	-112	-79	-107	-71	-140	-138
Other financing activities	-345	-306	-55	7	0	0
Net paid financing expenses	-47	-56	-50	-51	-54	-54
Cash flow from financing	269	786	115	651	-321	-163
Net cash flows	-137	291	311	498	-159	-136
Cash, start of the year	449	312	603	914	1,412	1,253
Cash, end of the year	312	603	914	1,412	1,253	1,117
Adjusted EBITDA / share (€)	1.50	1.65	1.77	1.74	1.74	1.71
FFO 1*	154	168	179	182	184	199
FFOPS 1* (€)	0.96	1.01	1.07	1.07	1.09	1.14
Y-Y Growth						
Operating cash flow	0.5%	11.0%	11.1%	-2.9%	28.9%	-11.6%
Adjusted EBITDA / share	3.0%	9.8%	7.3%	-1.6%	-0.2%	-1.6%
FFO 1	13.2%	9.0%	6.8%	1.8%	1.2%	7.9%
FFOPS 1	8.4%	5.0%	5.8%	0.3%	1.7%	4.5%

* adjusted for perpetual notes

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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 17 March 2021 at 09:54

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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...34	↓	↓	↓	↓
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	22 February 2021	€20.42	Buy	€27.50
43	Today	€21.58	Buy	€27.50

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.

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Legally required information regarding

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

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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