

# GRAND CITY Properties S.A.

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

H1  
 Update

**RATING**  
**BUY**

**PRICE TARGET**  
**€ 27.50**

Return Potential 17.5%  
 Risk Rating Medium

## SIX MONTH PROFITABILITY EDGES HIGHER

Six month reporting featured steady operational performance and was in line with our targets. Net rent tallied €183m for the period led by a 2.0% like-for-like (LFL) net rental income increase, which helped offset the effects of non-core property disposals on rental income. FFO 1 topped the prior year result at €94m (+3%), thanks to improved portfolio quality and an optimised debt structure. The portfolio value (€ / m<sup>2</sup>) climbed to 2,085 (YE20: 1,858). Management confirmed 2021 guidance (FFOPS 1: €1.08 to €1.13). We remain Buy-rated on Grand City with an unchanged €27.5 price target.

**London back online; Berlin market update** Covid-19 countermeasures have been easing in the British capital, which has helped jump-start letting activities. London portfolio vacancies hit 6.5% in Q2 vs 8.6% at YE20, while overall portfolio vacancy dipped to a historical low of 5.7%. In Berlin, the market is returning to normal after the end of the rent-freeze, despite chatter surrounding the expropriation referendum in the upcoming elections. Given the unlikelihood that *all Berliners* would be willing to pick up the ~€35bn expropriation-tab that benefits *only 10%* of residents, we see little chance of the referendum garnering the required 25% vote for validation. Meanwhile, most of GCP's Berlin properties will be revalued in H2 to allow for any potential effects from the overturned rent-freeze. Management also noted some €2m in recovered rents released by the struck down Berlin rent-cap.

**Tackling climate change; operational impact** GCP wants to reduce its 2030 CO<sub>2</sub> footprint by 40% vs 2018 levels. The company is ramping up deployment of more efficient heating systems, on-site energy production with solar and CHP (combined heat and power), and expanding its e-mobility infrastructure. Management commented on the earnings call that the CO<sub>2</sub> tax will run to €2m to €3m annually for its portfolio. According to current regulations, the carbon tax is payable by tenants. However, the matter will likely be reviewed by the incoming government. Even if the current law is revised to pass the cost onto landlords, the impact on the GCP bottom line will be low. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020	2021E	2022E
Rental income (€m)	494.89	544.98	560.30	535.42	508.25	535.41
Y/Y growth	13.6%	10.1%	2.8%	-4.4%	-5.1%	5.3%
Adj. EBITDA (€m)	247.98	275.53	297.66	299.78	290.21	308.93
Net income <sup>1</sup> (€m)	534.6	488.6	406.9	362.2	304.7	358.1
EPRA NTA (€m)	n.a.	n.a.	4,357.72	4,566.43	4,723.50	5,274.30
EPRA NTAPS (€)	n.a.	n.a.	25.93	26.55	28.14	29.35
DPS (€)	0.73	0.64	0.82	0.82	0.83	0.90
FFO 1* (€m)	153.76	167.59	178.97	182.21	185.59	207.31
FFOPS 1* (€)	0.96	1.01	1.07	1.07	1.10	1.19
Liquid assets (€m)	401.48	765.04	1,069.46	1,697.91	1,552.36	1,420.54

\* after perpetual adjustment <sup>1</sup> after minorities 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 16 Aug 2021

Closing Price	€ 23.40
Shares outstanding	171.90m
Market Capitalisation	€ 4022.46m
52-week Range	€ 18.87 / 23.90
Avg. Volume (12 Months)	335,269

Multiples	2020	2021E	2022E
P/FFO 1	21.8	21.2	19.6
P/EPRA NAV	0.9	0.8	0.8
FFO 1 Yield	4.6%	4.7%	5.1%
Div. Yield	3.5%	3.5%	3.8%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2021

Liquid Assets	€ 1,355.00m
Investment properties	€ 8,387.00m
EPRA NTA	€ 4,545.00m
Total Assets	€ 10,916.00m
Current Liabilities	€ 752.00m
Total Equity	€ 5,398.00m

### SHAREHOLDERS

Edolaxia Ltd.	43.0%
Treasury	3.0%
Free float	54.0%



## SIX MONTH PROFITABILITY EDGES HIGHER

The 1.8% annualised decline in H1/21 net rent (NRI) is chiefly traced to trailing twelve month property disposals tallying ~€0.9bn. Net disposal effects were partially offset by some €750m in accretive acquisitions over the same time frame. As of Q2, GCP realised total LFL net rental growth of 2.0% comprising 0.6% occupancy increases and 1.4% in-place rent. The latter owes to 0.9% re-letting with indexing of 0.5%.

**Table 1: First quarter vs prior year and FBe**

in €m	Q2/21	Q2/21E	Variance	Q2/20	Variance	H1/21	H1/20	Variance
Rental income	131	128	2.7%	132	-0.8%	259	268	-3.1%
Net rent	93	89	3.9%	92	0.7%	183	186	-1.8%
Adjusted EBITDA	75	73	2.5%	73	2.3%	147	147	0.2%
margin	57%	57%	-	55%	-	57%	55%	-
FFO 1 (after perpetuals)	47	46	4.2%	45	6.5%	94	92	3.0%
FFOPS 1 (€) (after perpetuals)	0.29	0.27	4.2%	0.27	5.7%	0.56	0.55	1.8%

Source: First Berlin Equity Research; Grand City Properties

**Adj. EBITDA stable; FFO 1 higher** The cash recycling and disposal initiatives have culled the portfolio of lower quality properties and thus trimmed operational costs, which totalled €108m in H1 vs €116m in the prior year period. This meant that H1/21 AEBITDA was stable (+0.2%), while FFO 1 moved 3.0% higher on an annualised basis. The latter KPI was also helped by the optimised debt structure and lower interest expense as well as a lower contribution to perpetual note investors.

**Disposals slowed in Q2** GCP reported another €80m of property sales in the second quarter pushing YTD disposals to €300m. Sold properties mainly entailed non-core assets in East German cities located in Saxony-Anhalt, Thuringia and Brandenburg at a 17x NRI multiple. This generated a 29% margin over total acquisition costs including CapEx. FFO 2 totalled €166m for the six month period.

The company has funnelled proceeds into its share buyback programme to take advantage of the prevailing discount to NAV and has repurchased €160m of stock YTD leaving some €110m in buyback headroom under the current program.

**NTAPS (including dividend) up 5% YTD** As of Q2, EPRA NTA totalled €4.5bn (€27.0 / share) compared to €4.6bn at year-end 2020 (€26.5 / share, +1.9%). Profits generated during the period were offset by the share buyback and perpetual note repurchases. However, the uplift in NTAPS owes to the accretive effects of the share buyback programme.

**Table 2: Financial highlights**

	Q2/21	2020	Variance
Cash & liquid assets	1,355	1,692	-20%
Investment property <sup>1</sup>	8,387	8,022	5%
Total equity	5,398	5,555	-3%
EPRA NTA	4,545	4,566	0%
Interest bearing debt	163	437	-63%
Straight & convertible bonds	4,051	3,776	7%
Loan-to-Value (LTV)	34%	31%	-
Equity ratio	49%	51%	-

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

Source: First Berlin Equity Research; Grand City Properties



**Capital structure remains stout** Debt coverage features a 6.5x ICR (interest coverage ratio), while the company now has €7.8bn in unencumbered assets equal to 92% of the value. Cash and equivalents total some €1.4bn and net debt amounted to €2.4bn.

**Portfolio value (€ / m<sup>2</sup>) hits 2,085 compared to 1,858 at YE20** The London portfolio increased another 8% Q/Q to €1,591m, and the British capital now corresponds to 21% of the overall portfolio with ~4,100 flats (including pre-marketed units).

Overall, the portfolio will be opportunistically restocked, while mature units will still be considered for disposal should attractive deals arise. We continue to look for external growth to remain slow as the landlord unlocks the embedded value of its current portfolio.

**Outlook confirmed; FFOPS 1 growth of 0.9% to 5.6% Y/Y** Thanks to solid second quarter results, management reiterated 2021 guidance calling for FFOPS 1 (after perpetuals) of €1.08 to €1.13. The results were in line with our Q2 targets, while disposal and acquisition activity continues to track towards our full year expectations. Our rating remains Buy with an unchanged €27.5 target price.

**Table 3: Guidance vs FBe**

	Unit	2021 Guidance	FBe 2021
FFO 1 (after perpetuals)	€m	183 - 192	186
FFOPS 1 (after perpetuals)	€	1.08 - 1.13	1.10
DPS	€	0.81 - 0.85	0.83
LFL net rent growth	%	2.0 - 3.0	2.5
LTV	%	< 45	32

Source: First Berlin Equity Research; Grand City Properties



## VALUATION MODEL

in €m	2021E	2022E	2023E	2024E	TV
<b>EBITDA</b>	290	309	327	345	348
(+) Revaluations	303	283	281	273	89
(+) Investment income	3	3	3	3	3
(-) Tax expense	89	89	92	93	66
<b>NOPAT</b>	<b>507</b>	<b>506</b>	<b>520</b>	<b>527</b>	<b>374</b>
<b>Total assets</b>	<b>11,128</b>	<b>11,554</b>	<b>12,042</b>	<b>12,730</b>	<b>12,730</b>
(-) Current liabilities	315	327	344	361	361
(+) Current financial debt	37	37	37	37	37
(-) Cash	1,267	1,135	1,070	1,217	1,217
(+) Deferred taxes	629	670	710	748	748
<b>Capital employed (CE)</b>	<b>10,212</b>	<b>10,799</b>	<b>11,376</b>	<b>11,937</b>	<b>11,937</b>
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	198	181	176	167	4
<b>NPV</b>	<b>196</b>	<b>173</b>	<b>164</b>	<b>150</b>	<b>191</b>
<b>Fair value calculation</b>					
<b>Total return</b>	<b>875</b>				
(+) EPRA NAV (2020)	4,342				
(-) Dividend paid	140				
<b>Equity value</b>	<b>5,077</b>				
<b>Fair value per share (€)</b>	<b>27.5</b>				



## INCOME STATEMENT

All figures in EURm	2017	2018	2019	2020	2021E	2022E
<b>Net rent</b>	<b>328</b>	<b>364</b>	<b>383</b>	<b>372</b>	<b>358</b>	<b>367</b>
<b>Rental and operating income</b>	<b>495</b>	<b>545</b>	<b>560</b>	<b>535</b>	<b>508</b>	<b>535</b>
Property revaluations & capital gains	616	507	401	343	303	283
Result from equity-accounted investees	6	1	0	4	3	3
Property expenses	-239	-263	-256	-226	-211	-219
Cost of buildings sold	-1	0	0	0	0	0
Administration expenses	-11	-11	-13	-11	-10	-10
<b>Operating income (EBIT)</b>	<b>868</b>	<b>780</b>	<b>693</b>	<b>645</b>	<b>594</b>	<b>593</b>
Finance expenses	-40	-46	-45	-53	-46	-46
Other financial results	-43	-36	-33	-46	-90	0
<b>Pre-tax income (EBT)</b>	<b>786</b>	<b>698</b>	<b>615</b>	<b>547</b>	<b>457</b>	<b>547</b>
Tax and deferred tax expenses	-146	-115	-121	-93	-83	-78
Minority interests	-80	-64	-53	-54	-45	-56
Hybrid note investors	-24	-30	-33	-33	-24	-24
<b>Net income</b>	<b>535</b>	<b>489</b>	<b>407</b>	<b>367</b>	<b>305</b>	<b>389</b>
Basic EPS (€)	3.35	2.95	2.43	2.13	1.81	2.24
Diluted EPS (€)	3.06	2.76	2.30	2.01	1.71	2.16
<b>Adjusted EBITDA</b>	<b>248</b>	<b>276</b>	<b>298</b>	<b>300</b>	<b>290</b>	<b>309</b>
<b>Ratios</b>						
Adjusted EBITDA margin	50.1%	50.6%	53.1%	56.0%	57.1%	57.7%
Tax rate	-11.3%	-10.8%	-12.5%	-10.5%	11.5%	10.0%
<b>Expenses as % of revenues</b>						
Property expenses	48.3%	48.2%	45.6%	42.3%	41.5%	40.9%
Administration expenses	2.2%	1.9%	2.3%	2.0%	1.9%	1.9%
<b>Y-Y Growth</b>						
Rental and operating income	13.6%	10.1%	2.8%	-4.4%	-5.1%	5.3%
Total revenues	12.2%	9.7%	2.8%	-4.4%	-5.1%	5.3%
Operating income	5.5%	-10.2%	-11.1%	-6.9%	-7.9%	-0.2%
Adjusted EBITDA	10.3%	11.1%	8.0%	0.7%	-3.2%	6.5%
Net income/ loss	-1.5%	-8.6%	-16.7%	-9.8%	-17.0%	27.5%
<b>Funds from Operations (FFO)</b>						
<b>Operating profit</b>	<b>868</b>	<b>780</b>	<b>693</b>	<b>640</b>	<b>594</b>	<b>593</b>
Depreciation and amortisation	2	3	4	5	3	3
<b>EBITDA</b>	<b>871</b>	<b>782</b>	<b>697</b>	<b>645</b>	<b>597</b>	<b>595</b>
Property revaluations & capital gains	-616	-507	-401	-343	-303	-283
Others	-6	0	2	-2	-3	-3
<b>Adjusted EBITDA</b>	<b>248</b>	<b>276</b>	<b>298</b>	<b>300</b>	<b>290</b>	<b>309</b>
Financial expense	-40	-46	-45	-53	-46	-46
Tax	-28	-30	-37	-31	-33	-31
Minorities	-2	-2	-4	-1	-1	-1
<b>FFO 1 (before perpetuals)</b>	<b>178</b>	<b>198</b>	<b>212</b>	<b>215</b>	<b>210</b>	<b>232</b>
Perpetual note adjustment	-24	-30	-33	-33	-24	-24
<b>FFO 1</b>	<b>154</b>	<b>168</b>	<b>179</b>	<b>182</b>	<b>186</b>	<b>207</b>
CapEx	-67	-75	-76	-62	-62	-66
<b>AFFO</b>	<b>87</b>	<b>92</b>	<b>103</b>	<b>120</b>	<b>124</b>	<b>142</b>



## BALANCE SHEET

All figures in EURm	2017	2018	2019	2020	2021E	2022E
<b>Current assets, total</b>	<b>796</b>	<b>1,238</b>	<b>1,629</b>	<b>2,264</b>	<b>2,017</b>	<b>1,904</b>
Cash and cash equivalents	312	603	914	1,412	1,267	1,135
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	12	12
Assets held for sale	123	136	201	155	105	105
<b>Non-current assets, total</b>	<b>6,712</b>	<b>7,623</b>	<b>8,223</b>	<b>8,602</b>	<b>9,111</b>	<b>9,650</b>
Equipment and intangible assets	20	24	27	27	30	33
Investment property	6,414	7,282	7,981	8,043	8,519	9,022
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
<b>Total assets</b>	<b>7,508</b>	<b>8,861</b>	<b>9,851</b>	<b>10,866</b>	<b>11,128</b>	<b>11,554</b>
<b>Current liabilities, total</b>	<b>371</b>	<b>306</b>	<b>454</b>	<b>427</b>	<b>592</b>	<b>327</b>
Short-term debt	62	22	33	147	315	37
Trade and other payables	267	242	288	209	202	210
Other current liabilities	42	42	133	71	76	80
<b>Long-term liabilities, total</b>	<b>3,288</b>	<b>3,887</b>	<b>4,431</b>	<b>4,884</b>	<b>4,929</b>	<b>5,038</b>
Long-term debt	919	846	521	427	160	200
Convertible and straight bonds	1,810	2,450	3,195	3,639	3,895	3,909
Deferred taxes	500	523	592	634	684	731
Other LT liabilities	59	69	122	183	190	198
Minority interests	364	409	444	535	580	636
<b>Shareholders' equity</b>	<b>3,485</b>	<b>4,258</b>	<b>4,523</b>	<b>5,020</b>	<b>5,026</b>	<b>5,553</b>
<b>Total consolidated equity and debt</b>	<b>7,508</b>	<b>8,861</b>	<b>9,851</b>	<b>10,866</b>	<b>11,128</b>	<b>11,554</b>
<b>Ratios</b>						
Current ratio (x)	2.1	4.0	3.6	5.3	3.4	5.8
Equity ratio	51%	53%	50%	51%	50%	54%
EPRA NAV (€m)	3,327	3,753	4,120	4,342	4,474	5,048
EPRA NAVPS (€)	20.2	22.5	24.5	25.2	26.7	28.1
EPRA NTA (€m)	n.a.	n.a.	4,358	4,566	4,724	5,312
EPRA NTAPS (€)	n.a.	n.a.	25.9	26.5	28.1	29.6
Net debt (€m)	2,393	2,560	2,690	2,521	2,817	2,725
Net debt / equity (x)	0.7	0.6	0.6	0.5	0.6	0.5
Net debt / EBITDA (x)	9.7	9.3	9.0	8.4	9.7	8.8
Interest cover (x)	6.2	6.0	6.6	5.7	6.3	6.8
Loan-to-value (LTV)	36%	34%	33%	31%	32%	30%
Return on equity (ROE)	16.6%	12.5%	9.9%	8.1%	6.7%	7.6%



## CASH FLOW STATEMENT

All figures in EURm	2017	2018	2019	2020	2021E	2022E
<b>Net income</b>	<b>639</b>	<b>583</b>	<b>493</b>	<b>449</b>	<b>374</b>	<b>469</b>
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	-283
Net finance expenses	83	82	78	98	137	46
Tax result	146	115	121	93	83	78
Others	1	1	2	2	0	0
<b>Operating cash flow</b>	<b>248</b>	<b>276</b>	<b>298</b>	<b>300</b>	<b>290</b>	<b>309</b>
Change in working capital	-24	-23	-20	-29	51	-5
Tax paid	-23	-28	-28	-28	-33	-31
<b>Net cash flow from operating activities</b>	<b>202</b>	<b>225</b>	<b>249</b>	<b>242</b>	<b>308</b>	<b>273</b>
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
<b>Cash flow from investing</b>	<b>-608</b>	<b>-718</b>	<b>-53</b>	<b>-392</b>	<b>-150</b>	<b>-249</b>
Debt financing, net	597	916	360	559	156	54
Equity financing, net	176	312	-33	207	-94	-24
Dividend paid	-112	-79	-107	-71	-140	-139
Other financing activities	-345	-306	-55	7	-90	0
Net paid financing expenses	-47	-56	-50	-51	-46	-46
<b>Cash flow from financing</b>	<b>269</b>	<b>786</b>	<b>115</b>	<b>651</b>	<b>-214</b>	<b>-155</b>
<b>Net cash flows</b>	<b>-137</b>	<b>291</b>	<b>311</b>	<b>498</b>	<b>-146</b>	<b>-132</b>
Cash, start of the year	449	312	603	914	1,412	1,267
<b>Cash, end of the year</b>	<b>312</b>	<b>603</b>	<b>914</b>	<b>1,412</b>	<b>1,267</b>	<b>1,135</b>
<b>Adjusted EBITDA / share (€)</b>	<b>1.50</b>	<b>1.65</b>	<b>1.77</b>	<b>1.74</b>	<b>1.73</b>	<b>1.72</b>
<b>FFO 1*</b>	<b>154</b>	<b>168</b>	<b>179</b>	<b>182</b>	<b>186</b>	<b>207</b>
<b>FFOPS 1* (€)</b>	<b>0.96</b>	<b>1.01</b>	<b>1.07</b>	<b>1.07</b>	<b>1.10</b>	<b>1.19</b>
<b>Y-Y Growth</b>						
Operating cash flow	0.5%	11.0%	11.1%	-2.9%	27.1%	-11.3%
Adjusted EBITDA / share	3.0%	9.8%	7.3%	-1.6%	-0.8%	-0.6%
FFO 1	13.2%	9.0%	6.8%	1.8%	1.9%	11.7%
FFOPS 1	8.4%	5.0%	5.8%	0.3%	2.7%	8.3%

\* adjusted for perpetual notes

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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.

**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...37	↓	↓	↓	↓
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	17 March 2021	€21.58	Buy	€27.50
44	15 April 2021	€22.26	Buy	€27.50
45	19 May 2021	€21.88	Buy	€27.50
46	Today	€23.40	Buy	€27.50

**INVESTMENT HORIZON**

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

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- 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/>

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