

Grand City Properties S.A.

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

Q3/21
 Results

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 28.00

25.7%
 Medium

SOLID Q3 REFLECTS STRONG RESIDENTIAL MARKETS

Nine month reporting featured steady operational performance and was in line with our targets. Net rent totalled €276m for the period led by a 2.1% 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 €140m (+2.5%), thanks to improved portfolio quality and an optimised debt structure. NTAPS (Net Tangible Assets) tallied €27.9 equal to an 8% YTD increase (including the dividend). Management confirmed 2021 guidance (FFOPS 1: €1.08 to €1.13). Our target price moves to €28 (old: €27.5) on revised forecasts. We maintain our Buy rating.

Operational update Grand City continued to optimise its portfolio and capital structure in Q3. As of the nine month mark, the company had restocked the portfolio with some €0.7bn in acquisitions across metropolises such as Berlin and London, which offset some €0.3bn in disposals. Portfolio vacancy hit a historical low at 5.3% thanks to a pick-up in letting activity in conjunction with disposal effects. In London, easing of pandemic countermeasures helped GCP reduce vacancies in the British capital from 8.4% during the lockdown to 6.0%. Disposal proceeds continue to be funnelled into the share buyback program to take advantage of the discount to NTA, and external growth opportunities remain scarce, due to current market dynamics. The deal pipeline thus stands at “a couple hundred million.” Management also do not expect the resurgence in covid-19 cases to hamper operations.

German residential update Macro forces, led by a German economy now at pre-pandemic levels, low unemployment, and urbanisation trends, continue to spur a strong residential market, while political uncertainty has been reduced with expectations that the new coalition will pursue a supply side policy to tackle Germany's housing shortage and soaring rents. Although the coalition has yet to finalise its plans, there have been indications that construction cost could be cut through reductions in red tape—particularly historically slow permitting—to promote more building. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020	2021E	2022E
Rental income (€m)	494.89	544.98	560.30	535.42	519.25	558.15
Y/Y growth	13.6%	10.1%	2.8%	-4.4%	-3.0%	7.5%
Adj. EBITDA (€m)	247.98	275.53	297.66	299.78	295.97	322.05
Net income ¹ (€m)	534.6	488.6	406.9	362.2	280.8	396.3
EPRA NTA (€m)	n.a.	n.a.	4,357.72	4,566.43	4,711.51	5,032.23
EPRA NTAPS (€)	n.a.	n.a.	25.93	26.55	28.09	27.65
DPS (€)	0.73	0.64	0.82	0.82	0.84	0.93
FFO 1* (€m)	153.76	167.59	178.97	182.21	187.16	218.46
FFOPS 1* (€)	0.96	1.01	1.07	1.07	1.11	1.24
Liquid assets (€m)	401.48	765.04	1,069.46	1,697.91	1,441.25	1,070.75

* after perpetual adjustment ¹ 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 15 Nov 2021

Closing Price	€ 22.28
Shares outstanding	176.20m
Market Capitalisation	€ 3925.74m
52-week Range	€ 19.34 / 23.92
Avg. Volume (12 Months)	375,474

Multiples	2020	2021E	2022E
P/FFO 1	20.8	20.0	18.0
P/EPRA NAV	0.8	0.8	0.8
FFO 1 Yield	4.8%	5.0%	5.6%
Div. Yield	3.7%	3.7%	4.2%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2021

Liquid Assets	€ 1,265.00m
Investment properties	€ 8,894.00m
EPRA NTA	€ 4,686.00m
Total Assets	€ 11,287.00m
Current Liabilities	€ 754.00m
Total Equity	€ 5536.00m

SHAREHOLDERS

Edolaxia Ltd.	43.0%
Treasury	6.0%
Free float	51.0%



Moreover, the new Berlin mayor, Franziska Giffey, has already hinted that she will not support expropriation as a solution for the capital's housing woes. Meanwhile, tenants are expected to shoulder the carbon tax according to current regulations. But this will be reviewed with a 50/50 split between landlord and tenant as a potential outcome. GCP management noted that even if the current law is revised to pass the cost fully onto landlords, the impact on the GCP bottom line will be low (€2m to €3m).

NINE MONTH REPORTING

Net rental income (NRI) remained stable for the nine month period despite ~€930m in trailing twelve month disposal activity. 9M net disposal effects were partially offset by some €700m in accretive acquisitions over the same timeframe, which included the consolidation of a €280m portfolio from a joint-venture. As of Q3, GCP realised total LFL net rental growth of 2.1% comprising 0.6% occupancy increases and 1.5% in-place rent. The latter owes to 0.7% re-letting with indexing of 0.8%.

Table 1: Third quarter vs prior year and FBe

in €m	Q3/21	Q3/21E	Variance	Q3/20	Variance	9M/21	9M/20	Variance
Net rent	93	89	4.5%	93	0.4%	276	279	-1.0%
AEBITDA	75	71	5.1%	76	-1.7%	222	223	-0.4%
margin	80%	80%	-	82%	-	80%	80%	-
FFO 1 (after perpetuals)	46	45	2.7%	46	0.4%	140	137	2.5%
FFOPS 1 (€) (after perpetuals)	0.28	0.27	2.7%	0.26	7.7%	0.84	0.81	3.7%

Source: First Berlin Equity Research; Grand City Properties

Adj. EBITDA (AEBITDA) steady; FFO 1 higher Improved operational efficiencies helped offset disposal effects and meant that 9M/21 AEBITDA was stable (-0.4%) Y/Y. FFO 1 moved 2.5% higher on an annualised basis. The KPI was also boosted by the optimised debt structure and lower interest expense as well as a lower contribution to perpetual note investors. On a quarterly basis, earnings also remained steady Y/Y, thanks to the aforementioned factors, while FFOPS rose 7.7%, due to the buyback effects.

Revaluations gains up 4% on LFL basis (excluding CapEx) As of the nine month period, property valuations tallied €326m (9M/20: €272m). Management noted that 60% of the properties has so far been assessed by external, independent valuers, and that Berlin will be part of Q4 revaluations.

NTAPS up 8% YTD As of Q3, EPRA NTA totalled €4.7bn (€27.9 / share) compared to €4.6bn at year-end 2020 (€26.5 / share, +5.3%). Profits generated during the period were slightly offset by the share buyback and perpetual note repurchases. However, the uplift in NTAPS owes to the accretive effects of the share buyback programme. Some 70% of shareholders opted to receive their dividend in the form of GCP shares (scrip dividend). Adjusted for the €0.82 dividend distribution, EPRA NTAPS is up 8% YTD.

The company continues to repurpose disposal proceeds for its share buyback programme to take advantage of the prevailing discount to NTA and has repurchased €270m of stock YTD. With the current program nearly exhausted and limited opportunity for property acquisitions, management will leave the door open to further buybacks.

**Table 2: Financial highlights**

	Q3/21	2020	Variance
Cash & liquid assets	1,265	1,692	-25%
Investment property ¹	8,894	8,022	11%
Total equity	5,536	5,555	0%
EPRA NTA	4,686	4,566	3%
Interest bearing debt	359	437	-18%
Straight & convertible bonds	4,180	3,776	11%
Loan-to-Value (LTV)	36%	31%	-
Equity ratio	49%	51%	-
¹ including inventories-trading property			

Source: First Berlin Equity Research; Grand City Properties

Capital structure metrics remain a strength Debt coverage features a 6.5x ICR (interest coverage ratio), and the balance sheet shows €8.0bn in unencumbered assets equal to 88% of investment properties. The debt portfolio carries a 1% cost of debt with a 6.2 year maturity, and the first large payments due in 2024. Cash and equivalents total some €1.3bn and net debt amounted to €3.3bn.

Portfolio KPIs continue to improve The portfolio value (€ / m²) hit 2,093 compared to 1,858 at YE20. This also corresponds to a 20% CAGR for the period 2018 to Q3/21. Meanwhile, in-place rent is now at €8.0 per square metre vs €7.4 at YE20 (+8%), while portfolio vacancy is at a historical low of 5.3%. The good performance owes to the ongoing optimisation as well as improving letting activities.

The number of units now stands at 65k after the company bought some 6,700 flats. Overall, the portfolio will be opportunistically restocked, while mature units will still be considered for disposal should attractive deals arise. But we continue to look for external growth to remain slow as GCP focuses on unlocking the embedded value of its current portfolio.

**Table 3: Guidance vs FBe**

	Unit	2021 Guidance	FBe 2021
FFO 1 (after perpetuals)	€m	183 - 192	187
FFOPS 1 (after perpetuals)	€	1.08 - 1.13	1.11
DPS	€	0.81 - 0.85	0.84
LFL net rent growth	%	2.0 - 3.0	2.5
LTV	%	< 45	35

Source: First Berlin Equity Research; Grand City Properties

Tracking towards full year guidance; slight uptick in FBe Management reiterated guidance. YTD acquisitions slightly outperformed our previous targets. We have thus edged our 2021 investment property assumptions higher. We have also bumped up our 2021 target for revaluations after the good nine month performance. Updated figures now sit at the midpoint of the guided range. Our target price moves to €28 on revised forecasts, and we maintain our Buy rating.

Table 4: Changes to FBe and target price

	old	new	revision	upside	dividend yield	total upside
Price target (€)	27.5	28.0	1.8%	25.7%	3.7%	29.4%
in €m	2021E			2022E		
	Old	New	Variance	Old	New	Variance
Net rent (NRI)	358	366	2.2%	367	382	4.2%
AEBITDA	290	296	2.0%	309	322	4.2%
margin (NRI)	81%	81%	-	84%	84%	-
FFO 1	186	187	0.8%	207	218	5.4%
Margin	52%	51%	-	57%	57%	-
FFOPS 1 (€)	1.09	1.11	0.8%	1.14	1.24	5.4%

Source: First Berlin Equity Research estimates



VALUATION MODEL

in €m	2021E	2022E	2023E	2024E	TV
EBITDA	296	322	340	359	363
(+) Revaluations	338	298	295	286	93
(+) Investment income	4	0	0	0	0
(-) Tax expense	96	93	95	97	68
NOPAT	542	527	540	548	387
Total assets	11,338	11,539	12,042	12,842	12,842
(-) Current liabilities	727	744	761	779	779
(+) Current financial debt	445	445	445	445	445
(-) Cash	1,156	785	729	985	985
(+) Deferred taxes	646	690	732	773	773
Capital employed (CE)	10,546	11,145	11,729	12,296	12,296
ROCE	5.3%	4.9%	4.7%	4.6%	3.1%
WACC	3.1%	3.1%	3.1%	3.1%	3.1%
ROCE-WACC	2.2%	1.8%	1.6%	1.5%	0.1%
Economic Profit	228	191	186	176	7
NPV	227	185	175	160	287
Fair value calculation					
Total return	1,033				
(+) EPRA NAV (2020)	4,342				
(-) Dividend paid	140				
Equity value	5,235				
Fair value per share (€)	28.0				
Valuation metrics					
Price target (€)	28.00	28.00	28.00	28.00	
Share price (€)	22.28	22.28	22.28	22.28	
Return potential	25.7%	25.7%	25.7%	25.7%	
Dividend yield	3.7%	4.2%	4.3%	4.7%	
Total return potential	29.3%	29.9%	30.0%	30.3%	
FFOPS 1 yield	5.6%	6.2%	6.4%	6.8%	
DPS (€)	0.84	0.93	0.97	1.04	



INCOME STATEMENT

All figures in EURm	2017	2018	2019	2020	2021E	2022E
Net rent	328	364	383	372	366	382
Rental and operating income	495	545	560	535	519	558
Property revaluations & capital gains	616	507	401	343	338	298
Result from equity-accounted investees	6	1	0	4	4	0
Property expenses	-239	-263	-256	-226	-215	-228
Cost of buildings sold	-1	0	0	0	0	0
Administration expenses	-11	-11	-13	-11	-10	-11
Operating income (EBIT)	868	780	693	645	635	617
Finance expenses	-40	-46	-45	-53	-47	-46
Other financial results	-43	-36	-33	-46	-129	0
Pre-tax income (EBT)	786	698	615	547	459	571
Tax and deferred tax expenses	-146	-115	-121	-93	-105	-81
Minority interests	-80	-64	-53	-54	-50	-68
Hybrid note investors	-24	-30	-33	-33	-24	-24
Net income	535	489	407	367	281	396
Basic EPS (€)	3.35	2.95	2.43	2.13	1.67	2.25
Diluted EPS (€)	3.06	2.76	2.30	2.01	1.60	2.17
Adjusted EBITDA	248	276	298	300	296	322
Ratios						
Adjusted EBITDA margin	50.1%	50.6%	53.1%	56.0%	57.0%	57.7%
Tax rate	-11.3%	-10.8%	-12.5%	-10.5%	12.5%	10.0%
Expenses as % of revenues						
Property expenses	48.3%	48.2%	45.6%	42.3%	41.5%	40.9%
Administration expenses	2.2%	1.9%	2.3%	2.0%	2.0%	1.9%
Y-Y Growth						
Rental and operating income	13.6%	10.1%	2.8%	-4.4%	-3.0%	7.5%
Total revenues	12.2%	9.7%	2.8%	-4.4%	-3.0%	7.5%
Operating income	5.5%	-10.2%	-11.1%	-6.9%	-1.6%	-2.9%
Adjusted EBITDA	10.3%	11.1%	8.0%	0.7%	-1.3%	8.8%
Net income/ loss	-1.5%	-8.6%	-16.7%	-9.8%	-23.5%	41.1%
Funds from Operations (FFO)						
Operating profit	868	780	693	640	635	617
Depreciation and amortisation	2	3	4	5	3	3
EBITDA	871	782	697	645	638	620
Property revaluations & capital gains	-616	-507	-401	-343	-338	-298
Others	-6	0	2	-2	-4	0
Adjusted EBITDA	248	276	298	300	296	322
Financial expense	-40	-46	-45	-53	-47	-46
Tax	-28	-30	-37	-31	-37	-32
Minorities	-2	-2	-4	-1	-1	-1
FFO 1 (before perpetuals)	178	198	212	215	212	243
Perpetual note adjustment	-24	-30	-33	-33	-24	-24
FFO 1	154	168	179	182	187	218
CapEx	-67	-75	-76	-62	-63	-69
AFFO	87	92	103	120	124	150



BALANCE SHEET

All figures in EURm	2017	2018	2019	2020	2021E	2022E
Current assets, total	796	1,238	1,629	2,264	1,914	1,571
Cash and cash equivalents	312	603	914	1,412	1,156	785
Traded securities at fair value through P&L	89	162	155	286	286	286
Trade and other receivables	260	319	342	395	356	382
Inventories - Trading property	12	17	16	16	12	13
Assets held for sale	123	136	201	155	105	105
Non-current assets, total	6,712	7,623	8,223	8,602	9,424	9,969
Equipment and intangible assets	20	24	27	27	30	33
Investment property	6,414	7,282	7,981	8,043	8,950	9,471
Equity accounted investees	37	26	21	108	0	0
Other LT assets	214	254	151	373	388	403
Deferred tax assets	28	37	42	51	56	61
Total assets	7,508	8,861	9,851	10,866	11,338	11,539
Current liabilities, total	371	306	454	427	727	744
Short-term debt	62	22	33	147	445	445
Trade and other payables	267	242	288	209	207	219
Other current liabilities	42	42	133	71	76	80
Long-term liabilities, total	3,288	3,887	4,431	4,884	5,037	4,897
Long-term debt	919	846	521	427	410	200
Convertible and straight bonds	1,810	2,450	3,195	3,639	3,735	3,749
Deferred taxes	500	523	592	634	702	751
Other LT liabilities	59	69	122	183	190	198
Minority interests	364	409	444	535	603	671
Shareholders' equity	3,485	4,258	4,523	5,020	4,971	5,227
Total consolidated equity and debt	7,508	8,861	9,851	10,866	11,338	11,539
Ratios						
Current ratio (x)	2.1	4.0	3.6	5.3	2.6	2.1
Equity ratio	51%	53%	50%	51%	49%	51%
EPRA NAV (€m)	3,327	3,753	4,120	4,342	4,437	4,742
EPRA NAVPS (€)	20.2	22.5	24.5	25.2	26.5	26.1
EPRA NTA (€m)	n.a.	n.a.	4,358	4,566	4,712	5,032
EPRA NTAPS (€)	n.a.	n.a.	25.9	26.5	28.1	27.6
Net debt (€m)	2,393	2,560	2,690	2,521	3,148	3,323
Net debt / equity (x)	0.7	0.6	0.6	0.5	0.6	0.6
Net debt / EBITDA (x)	9.7	9.3	9.0	8.4	10.6	10.3
Interest cover (x)	6.2	6.0	6.6	5.7	6.3	6.9
Loan-to-value (LTV)	36%	34%	33%	31%	35%	35%
Return on equity (ROE)	16.6%	12.5%	9.9%	8.1%	6.4%	8.3%



CASH FLOW STATEMENT

All figures in EURm	2017	2018	2019	2020	2021E	2022E
Net income	639	583	493	449	355	489
Depreciation and amortisation	2	3	4	5	3	3
Profit from equity accounted investees	-6	-1	0	-4	-4	0
Change in fair value of investment properties	-616	-507	-401	-343	-338	-298
Net finance expenses	83	82	78	98	176	46
Tax result	146	115	121	93	105	81
Others	1	1	2	2	0	0
Operating cash flow	248	276	298	300	296	322
Change in working capital	-24	-23	-20	-29	48	-9
Tax paid	-23	-28	-28	-28	-37	-32
Net cash flow from operating activities	202	225	249	242	307	281
Investment in fixed/intangible assets	-6	-6	-7	-7	-5	-6
Net property investments / disposals	-374	-501	-194	-492	-520	-223
Acquisition of subsidiaries	-324	-112	31	547	112	0
Proceeds from investments in financial assets	95	-100	117	-439	-15	-16
Cash flow from investing	-608	-718	-53	-392	-428	-244
Debt financing, net	597	916	360	559	377	-196
Equity financing, net	176	312	-33	207	-77	-24
Share buyback	0	0	0	0	-215	0
Dividend paid	-112	-79	-107	-71	-57	-140
Other financing activities	-345	-306	-55	7	-116	0
Net paid financing expenses	-47	-56	-50	-51	-47	-46
Cash flow from financing	269	785	115	651	-135	-407
Assets held for sale	1	0	0	0	0	0
Fx effects	0	-1	0	-3	0	0
Net cash flows	-137	291	311	498	-257	-371
Cash, start of the year	449	312	603	914	1,412	1,156
Cash, end of the year	312	603	914	1,412	1,156	785
Adjusted EBITDA / share (€)	1.50	1.65	1.77	1.74	1.74	1.77
FFO 1*	154	168	179	182	187	218
FFOPS 1* (€)	0.96	1.01	1.07	1.07	1.11	1.24
Y-Y Growth						
Operating cash flow	0.5%	11.0%	11.1%	-2.9%	26.6%	-8.3%
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%	2.7%	16.7%
FFOPS 1	8.4%	5.0%	5.8%	0.3%	3.8%	11.5%

* adjusted for perpetual notes

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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...38	↓	↓	↓	↓
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	17 August 2021	€23.40	Buy	€27.50
47	Today	€22.28	Buy	€28.00

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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