

Grand City Properties S.A.

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

Q2/22
 results

RATING
BUY
PRICE TARGET
€ 24.00
 Return Potential 73.2%
 Risk Rating Medium

STAYING THE COURSE

Second quarter reporting was close to FBe and has Grand City tracking towards confirmed guidance. **Headline figures outperformed the prior year comps and were led by a 5.4% Y/Y increase in net rent, which spurred a 5.1% Y/Y rise in FFOPS 1. Although operating costs are rising, so are rents (3.0% LFL). The company is also helping its renters brace for much higher energy bills this winter by encouraging pre-payments now, and management do not expect the energy-shock to compromise tenants' ability to meet rent obligations. We remain Buy-rated on GCP with a €24 target price after adjusting the share count for the scrip dividend shares (old: €24.5).**

Inflation effects so far not disruptive Inflation may be peaking. Last week, America reported that consumer prices in July were the same as in June—the first absence of month-on-month inflation since early 2020. While inflation and scarce labour have recently conspired to whittle away at Grand City's strong margins through higher staffing; IT, and external service provider costs, the impact is marginal. Thanks to 3.0% LFL RI growth, the net effect of inflation was a 220 basis point Y/Y decline in the H1 AEBITDA margin to 78.3%. We expect this dynamic to continue to insulate operations from the harshest inflationary effects and give GCP ample headroom to absorb potentially higher refinancing costs down the road (2024/25) without greatly compromising FFO yields.

Winter is coming; will tenants be able to pay rent? Europeans are facing an enormous energy-price shock. The question is whether staying warm this winter will compromise German households' ability to pay rent? We think the answer is no. Tenants broadly showed their ability to pay rent during the pandemic shock, and now German households are flush with cash after having socked away >15% of their earnings the past two years with fewer options to splurge. GCP management noted on the earnings call that they have provisioned "a couple million" as a precaution for uncollected rents. But compared to annualised net rent that now tops €396m, the amount is negligible. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021	2022E	2023E
Rental income (€m)	544.98	560.30	535.42	524.63	540.43	565.55
Y/Y growth	10.1%	2.8%	-4.4%	-2.0%	3.0%	4.6%
Adj. EBITDA (€m)	275.53	297.66	299.78	298.59	302.72	318.14
Net income (€m)	488.6	406.9	362.2	523.5	408.0	461.3
EPRA NTA (€m)	0.00	4,357.72	4,566.43	5,020.19	5,446.91	5,840.62
EPRA NTAPS (€)	0.00	25.93	26.55	30.40	31.60	33.89
DPS (€)	0.77	0.82	0.82	0.83	0.86	0.89
FFO 1* (€m)	167.59	178.97	182.21	186.33	193.63	204.88
FFOPS 1* (€)	1.01	1.07	1.07	1.11	1.15	1.19
Liquid assets (€m)	765.04	1,069.46	1,697.91	1,113.53	556.89	856.24

* 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.

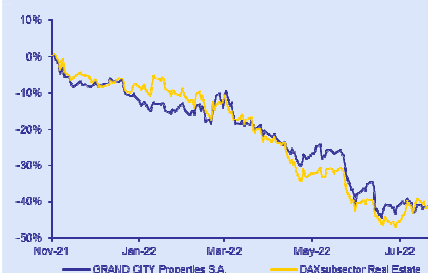
MARKET DATA

As of 15 Aug 2022

Closing Price	€ 13.86
Shares outstanding	176.18m
Market Capitalisation	€ 2441.85m
52-week Range	€ 12.46 / 23.92
Avg. Volume (12 Months)	367,119

Multiples	2021	2022E	2023E
P/FFO 1	12.5	12.1	11.7
P/NTA	0.5	0.4	0.4
FFO 1 Yield	8.0%	8.3%	8.6%
Div. Yield	6.0%	6.2%	6.4%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2022

Liquid Assets	€ 453.20m
Investment properties	€ 9,800.60m
EPRA NTA	€ 5,234.00m
Total Assets	€ 11,305.80m
Current Liabilities	€ 447.30m
Total Equity	€ 5,984.90m

SHAREHOLDERS

Edolaxia Ltd.	58.0%
Treasury	2.0%
Free float	40.0%



BREAKING DOWN Q1 RESULTS

Organic rental growth was driven by good operational performance leading to a 6.3% rise in net rent (RI). The performance is traced to the combined impact of the net acquisitions (+€240m) in 2021 and the good like-for-like (LFL) performance between the two periods. Q2 NRI matched our estimate at €98m.

The net acquisitions, closed mainly in H2/21, contributed to the 3.3% annualised increase in adjusted EBITDA (AEBITDA). However, the margin was around 220 basis points lower Y/Y at 78.3% on inflationary effects, mainly visible in higher personnel and service provider costs, that somewhat offset operational gains. Management continue to believe that increasing rents will keep pace with inflation effects on the cost structure. Second quarter EBITDA also matched FBe (table 1).

GCP realised total LFL net rental growth of 3.0% in H1 comprising 0.8% occupancy increases and 2.2% in-place rent. In-place rent LFL contains 1.4% re-letting and 0.8% indexation. The 5% LFL performance for Berlin was particularly strong considering that the Q2 KPI for the German capital was no longer influenced by reversal of the rent cap. Meanwhile, London notched 3.5% LFL rental growth.

Table 1: Second quarter vs prior year and FBe

in €m	Q2/22	Q2/22E	Variance	Q2/21	Variance	H1/22	H1/21	Variance
Rental income	139	136	1.9%	131	5.5%	272	259	4.9%
Net rent	98	98	-0.4%	93	5.4%	195	183	6.3%
Adjusted EBITDA	76	76	-0.1%	75	1.5%	152	147	3.3%
margin	78%	78%	-	81%	-	78%	81%	-
FFO 1 (after perpetuals)	49	49	0.1%	47	3.0%	97	94	3.2%
FFOPS 1 (€) (after perpetuals)	0.30	0.30	0.1%	0.29	5.1%	0.59	0.56	5.4%

Source: First Berlin Equity Research; Grand City Properties

FFO 1, the key industry indicator for recurring operational cash flow, moved 3.2% higher Y/Y during H1. Good operational growth and higher rental income was somewhat negated by an uptick in current tax costs. The Q2 performance was also in line with our estimate and has the company tracking well towards confirmed guidance and full year FBe.

FFOPS 1 increased over 5% on a half year and quarterly basis owing to the effects of the accretive share buybacks. Annualised FFOPS 1 corresponds to an 8.5% yield. FFO 2 tallied €104m in H1/22 with the transaction market largely in a wait-and-see mode.

Revaluation gains still solid Property stocks have been under pressure most of the year, partly due to market fears that valuations, and thus NAVs, would suffer in the higher interest rate environment. So far we have not seen any real signs of weakness with several German residential bellwethers having reported positive H1 numbers. Grand City booked H1 revaluation gains of €234m (+30% Y/Y) in H1 and €189m for Q2 (+76%). Around two-thirds of the portfolio was re-valued for H1 reporting.

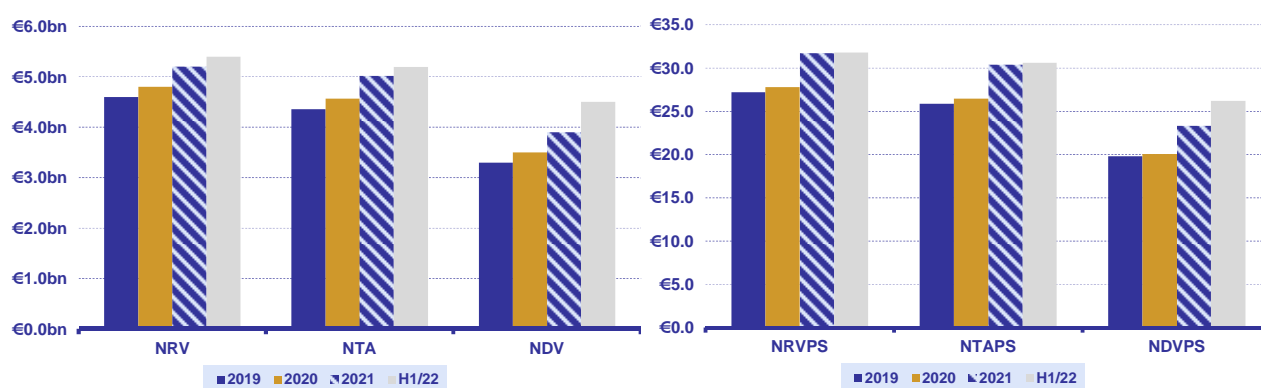


Portfolio value hits €2,297 / sqm In-place rent stood at €8.2 / sqm at the end of H1 vs €8.0 / sqm in the prior year period, while the portfolio vacancy rate dipped to record low 4.7% (H1/21: 5.7%). Annualised net rent tallied €396m at the end of the reporting period.

Net acquisitions totalled some €220m in H1/22 and will positively impact H2 operational performance. Management hinted on the earnings call that the deal pipeline is limited. Buyers remain side-lined in hopes of falling prices, while potential sellers are in no hurry to sell or accept a discount.

EPRA NAV metrics higher YTD EPRA NTA totalled €5.2bn (€30.6 / share) compared to €5.0bn at year-end 2021 (€30.4 / share, +1% YTD). Profits generated as well as revaluation gains drove the upside during the period.

Table 1: EPRA BPR reporting



Source: First Berlin Equity Research; Grand City Properties

Clean debt maturity schedule until 2024 GCP used its solid liquidity position to redeem its €450m Series F convertible bonds and pre-pay around €165m of high interest bank loans in H1. After deleveraging, the company's cash and liquid assets now cover debt maturities through mid-2025. Meanwhile, the ratio of unencumbered investment properties stands at 91% equal to €9bn.

Table 2: Financial highlights

in €m	H1/21	2021	Variance
Cash & liquid assets	453	1,108	-59%
Investment property	9,801	9,339	5%
Unencumbered assets	9,004	8,353	8%
Unencumbered assets ratio	91%	88%	-
Total equity	5,985	5,803	3%
EPRA NTA	5,234	5,020	4%
Interest bearing debt	253	358	-29%
Straight & convertible bonds	3,623	4,092	-11%
Loan-to-Value (LTV)	35%	36%	-
Equity ratio	53%	50%	-

Source: First Berlin Equity Research; Grand City Properties

The recent debt optimisation has improved financial flexibility meaning GCP can secure 7 year bank debt at around 2.5% compared to 3.5% for new corporate debt. GCP is also weighing various options for the €200m in perpetual notes that can be called in January 2023. Given the volatile refinancing environment, we reckon management will be patient in choosing the structure.



Guidance confirmed; FFOPS 1 growth of up to 6.3% Y/Y GCP reported a solid Q2 that harboured no negative surprises. Operational upside was largely able to absorb the negative effects of a volatile macro-environment. Management thus reiterated 2022 guidance calling for FFOPS 1 (after perpetuals) of €1.13 to €1.18. The results were in line with our Q2 targets and have the company tracking towards our full year estimates.

Table 3: Guidance vs FBe

	Unit	2022 Guidance	FBe 2022
FFO 1 (after perpetuals)	€m	188 - 197	194
FFOPS 1 (after perpetuals)	€	1.13 - 1.18	1.15
DPS	€	0.85 - 0.89	0.86
LFL net rent growth	%	> 2.0	2.2
LTV	%	< 45	34

Source: First Berlin Equity Research; Grand City Properties



VALUATION MODEL

After adjusting the share count for the new 7.36m scrip dividend shares, our target price is now €24 (old: €24.5). Our rating remains Buy.

	Unit	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
FFOPS 1	€	1.14	1.18	1.25	1.30	1.35	1.39	1.44	1.47	1.54	1.55
Payout ratio	%	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Dividend (DPS)	€	0.86	0.88	0.94	0.97	1.01	1.04	1.08	1.10	1.15	1.17
Y/Y	%		0.03	0.06	0.04	0.04	0.03	0.03	0.02	0.05	n.a.
NPV	€	0.84	0.82	0.83	0.82	0.81	0.79	0.78	0.75	0.75	18.0
CAGR (2022 to 2026)	%	3.9									
Terminal growth rate	%	1.0									
Discount rate	%	5.3									
NPV of dividends	€	5.7									
NPV of TV	€	18.0									
Fair value per share	€	24.0									

		Terminal growth						
		-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%
Discount rate	4.7%	21.0	23.0	25.0	28.0	31.0	37.0	44.0
	4.9%	20.0	22.0	24.0	26.0	30.0	34.0	40.0
	5.1%	19.0	21.0	23.0	25.0	28.0	32.0	37.0
	5.3%	19.0	20.0	22.0	24.0	26.0	30.0	34.0
	5.5%	18.0	19.0	21.0	23.0	25.0	28.0	32.0
	5.7%	17.0	18.0	20.0	22.0	24.0	26.0	30.0
	5.9%	17.0	18.0	19.0	21.0	22.0	25.0	28.0

		Cost of debt						
		0.75%	1.00%	1.25%	1.50%	2.00%	2.50%	3.00%
Discount rate	4.7%	31.0	30.0	29.0	28.0	26.0	23.0	21.0
	4.9%	29.0	28.0	27.0	26.0	24.0	22.0	20.0
	5.1%	28.0	27.0	26.0	25.0	23.0	21.0	19.0
	5.3%	26.0	25.0	25.0	24.0	22.0	20.0	18.0
	5.5%	25.0	24.0	23.0	23.0	21.0	19.0	17.0
	5.7%	24.0	23.0	22.0	22.0	20.0	18.0	17.0
	5.9%	23.0	22.0	21.0	21.0	19.0	18.0	16.0



INCOME STATEMENT

All figures in EURm	2018	2019	2020	2021	2022E	2023E
Net rent	364	383	372	375	387	405
Rental and operating income	545	560	535	525	540	566
Property revaluations & capital gains	507	401	343	695	369	376
Result from equity-accounted investees	1	0	4	4	0	0
Property expenses	-261	-253	-226	-218	-225	-234
Cost of buildings sold	0	0	0	0	0	0
Administration expenses	-10	-11	-11	-11	-12	-12
Depreciation & amortisation	-3	-4	-5	-8	-6	-7
Operating income (EBIT)	780	693	640	986	666	688
Finance expenses	-46	-45	-53	-46	-43	-45
Other financial results	-36	-33	-46	-149	-42	0
Pre-tax income (EBT)	698	615	542	791	581	644
Tax and deferred tax expenses	-115	-121	-93	-174	-100	-103
Minority interests	-64	-53	-54	-69	-48	-54
Hybrid note investors	-30	-33	-33	-25	-25	-25
Net income	489	407	362	524	408	461
Basic EPS (€)	2.95	2.43	2.13	3.12	2.42	2.68
AEBITDA	276	298	300	299	303	318
Ratios						
AEBITDA margin (% of net rent)	75.6%	77.8%	80.5%	79.7%	78.1%	78.5%
Tax rate	-10.8%	-12.5%	-10.5%	-13.1%	13.0%	13.0%
Expenses (% of net rent)						
Property expenses	71.7%	66.2%	60.8%	58.2%	58.0%	57.7%
Administration expenses	2.6%	3.0%	2.9%	3.0%	3.1%	3.0%
Y-Y Growth						
Rental and operating income	10.1%	2.8%	-4.4%	-2.0%	3.0%	4.6%
Total revenues	9.7%	2.8%	-4.4%	-2.0%	3.0%	4.6%
Operating income	-10.2%	-11.1%	-7.6%	54.0%	-32.5%	3.4%
Adjusted EBITDA	11.1%	8.0%	0.7%	-0.4%	1.4%	5.1%
Net income/ loss	-8.6%	-16.7%	-11.0%	44.5%	-22.1%	13.1%
Funds from Operations (FFO)						
Operating profit	780	693	640	986	666	688
Depreciation and amortisation	3	4	5	8	6	7
EBITDA	782	697	645	994	672	695
Property revaluations & capital gains	-507	-401	-343	-695	-369	-376
Others	0	2	-2	-1	-1	-1
Adjusted EBITDA	276	298	300	299	303	318
Financial expense	-46	-45	-53	-46	-43	-45
Tax	-30	-37	-31	-39	-39	-41
Minorities	-2	-4	-1	-2	-2	-2
FFO 1 (before perpetuals)	198	212	215	211	219	230
Perpetual note adjustment	-30	-33	-33	-25	-25	-25
FFO 1	168	179	182	186	194	205
CapEx	-75	-76	-62	-63	-74	-71
AFFO	92	103	120	123	120	134



BALANCE SHEET

All figures in EURm	2018	2019	2020	2021	2022E	2023E
Current assets, total	1,238	1,629	2,264	1,679	1,034	1,355
Cash and cash equivalents	603	914	1,412	895	404	704
Traded securities at fair value though P&L	162	155	286	218	153	153
Trade and other receivables	319	342	395	452	466	488
Inventories - Trading property	17	16	16	0	0	0
Assets held for sale	136	201	155	114	11	11
Non-current assets, total	7,623	8,223	8,602	9,883	10,521	11,175
Equipment and intangible assets	24	27	27	70	77	85
Investment property	7,282	7,981	8,043	9,364	10,030	10,656
Equity accounted investees	26	21	108	0	0	0
Other LT assets	254	151	373	397	358	372
Deferred tax assets	37	42	51	51	57	62
Total assets	8,861	9,851	10,866	11,562	11,556	12,530
Current liabilities, total	306	454	427	773	336	351
Short-term debt	22	33	147	455	5	5
Trade and other payables	242	288	209	216	222	231
Other current liabilities	42	133	71	103	109	115
Long-term liabilities, total	3,887	4,431	4,884	4,986	5,017	5,609
Long-term debt	846	521	427	353	300	800
Convertible and straight bonds	2,450	3,195	3,639	3,642	3,657	3,679
Deferred taxes	523	592	634	760	821	883
Other LT liabilities	69	122	183	231	238	246
Minority interests	409	444	535	615	663	717
Shareholders' equity	4,258	4,523	5,020	5,188	5,540	5,853
Total consolidated equity and debt	8,861	9,851	10,866	11,562	11,556	12,530
Ratios						
EPRA NTA (€m)	n.a.	4,358	4,566	5,020	5,447	5,841
EPRA NTAPS (€)	n.a.	25.9	26.5	30.4	31.6	33.9
Net debt (€m)	2,560	2,690	2,521	3,342	3,405	3,628
Net debt / equity (x)	0.6	0.6	0.5	0.6	0.6	0.6
Net debt / EBITDA (x)	9.3	9.0	8.4	11.2	11.2	11.4
Interest cover (x)	6.0	6.6	5.7	6.4	7.1	7.1
Loan-to-value (LTV)	34%	33%	31%	36%	34%	34%
Equity ratio	53%	50%	51%	50%	54%	52%
Return on equity (ROE)	12.5%	9.9%	8.1%	10.6%	7.8%	8.2%



CASH FLOW STATEMENT

All figures in EURm	2018	2019	2020	2021	2022E	2023E
Net income	583	493	449	617	481	540
Depreciation and amortisation	3	4	5	8	6	7
Profit from equity accounted investees	-1	0	-4	-4	0	0
Change in fair value of investment properties	-507	-401	-343	-695	-369	-376
Net finance expenses	82	78	98	195	85	45
Tax result	115	121	93	174	100	103
Others	1	2	2	3	0	0
Operating cash flow	276	298	300	299	304	319
Change in working capital	-23	-20	-29	-45	0	-4
Tax paid	-28	-28	-28	-37	-39	-41
Net cash flow from operating activities	225	249	242	217	265	274
Investment in fixed/intangible assets	-6	-7	-7	-8	-14	-15
Net property investments / disposals	-501	-194	-492	-465	-195	-250
Acquisition of subsidiaries	-112	31	547	333	0	0
Proceeds from investments in financial assets	-100	117	-439	-58	105	-14
Cash flow from investing	-718	-53	-392	-198	-103	-279
Debt financing, net	916	360	559	-71	-488	522
Equity financing, net	312	-33	207	-91	-25	-25
Share buyback	0	0	0	-272	0	0
Dividend paid	-79	-107	-71	-54	-55	-149
Other financing activities	-306	-55	7	0	-42	0
Net paid financing expenses	-56	-50	-51	-50	-43	-45
Cash flow from financing	785	115	651	-537	-653	304
Fx effects	-1	0	-3	2	0	0
Net cash flows	291	311	498	-517	-491	299
Cash, start of the year	312	603	914	1,412	895	404
Cash, end of the year	603	914	1,412	895	404	704
AEBITDA / share (€)	1.65	1.77	1.74	1.69	1.65	1.73
FFO 1*	168	179	182	186	194	205
FFOPS 1* (€)	1.01	1.07	1.07	1.11	1.15	1.19
Y-Y Growth						
Operating cash flow	11.0%	11.1%	-2.9%	-10.4%	22.0%	3.6%
Adjusted EBITDA / share	9.8%	7.3%	-1.6%	-2.8%	-2.7%	5.1%
FFO 1	9.0%	6.8%	1.8%	2.3%	3.9%	5.8%
FFOPS 1	5.0%	5.8%	0.3%	3.6%	3.3%	3.5%

* adjusted for perpetual notes

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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

Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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

The production of this recommendation was completed on 16 August 2022 at 13:16

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

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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.

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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 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.

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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...41	↓	↓	↓	↓
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	16 November 2021	€22.28	Buy	€28.00
48	18 March 2022	€19.92	Buy	€28.00
49	18 May 2022	€16.43	Buy	€24.50
50	Today	€13.86	Buy	€24.00

INVESTMENT HORIZON

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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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