

Grand City Properties S.A.

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

Q1/23 results

RATING
BUY

PRICE TARGET
€ 12.80

Return Potential 72.9%
 Risk Rating Medium

SO FAR SO GOOD

First quarter reporting was close to FBe and confirmed our view that the landlord can manage the challenging macro environment. Rental growth (LFL: +2.6%) and FFO 1 of €47m outperformed 2023 guidance calling for LFL net rent of 1% to 2% and FFO 1 of €170m to €180m. But this is expected to be the peak quarter this year. Record low portfolio vacancies (4.2%) and tenants saddled with much higher living costs will limit rent increase opportunities over the short-term. Plus, expenses for the reset perpetual notes will have a greater impact on FFO 1 going forward. Liquidity and capital structure metrics are holding up well and were boosted by disposals tallying €145m in Q1. Our rating remains Buy with a €12.8 TP.

So far so good As noted in our previous update, GCP brass have batted down the hatches to preserve liquidity and maintain strong balance sheet metrics, while contending with gusting macro headwinds. Q1 was an encouraging sign that the residential portfolio will continue to perform well and help absorb rising financing costs. The financing environment remains challenging although GCP was able to secure another €60m in bank debt at a 1.4% margin over Euribor with another €150m signed. The landlord exited Q1 with €571m of cash and liquid assets (+33% Q/Q) and can cover debt maturities through 2025.

Other conference call takeaways GCP kicked off the year on a positive note with Q1 results tracking slightly ahead of 2023 guidance. However, management cautioned that the upcoming quarters will see a greater impact from the reset perpetual notes and higher financing expenses with more bank debt. Meanwhile, tighter household budgets and lower tenant turnover will gate rent increase opportunities over the near-term. However, mid- to long-term rent reversionary prospects remain high, as German and London residential markets are still characterised by acute low supply with new-build having virtually ground to a halt. Further, mortgage rates are at eye-watering levels meaning. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022	2023E	2024E
Rental income (€m)	560.3	535.4	524.6	582.5	594.4	606.9
Y/Y growth	2.8%	-4.4%	-2.0%	11.0%	2.0%	2.1%
Adj. EBITDA (€m)	297.7	299.8	298.6	308.1	309.3	321.1
Net income (€m)	406.9	362.2	523.5	129.2	-45.0	261.7
EPRA NTA* (€m)	4,357.7	4,566.4	5,020.2	5,115.7	5,041.2	5,202.0
EPRA NTAPS* (€)	25.9	26.5	30.4	29.6	29.3	30.2
DPS (€)	0.82	0.82	0.83	0.00	0.76	0.74
FFO 1 (€m)	179.0	182.2	186.3	192.2	174.4	170.2
FFOPS 1 (€)	1.07	1.07	1.11	1.14	1.01	0.99
Liquid assets (€m)	1,069.5	1,697.9	1,113.5	436.8	920.6	744.6

* with RETT

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.

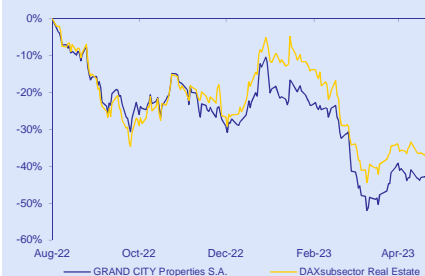
MARKET DATA

As of 16 May 2023

Closing Price	€ 7.41
Shares outstanding	176.18m
Market Capitalisation	€ 1,304.61m
52-week Range	€ 6.09 / 16.94
Avg. Volume (12 Months)	244,891

Multiples	2022	2023E	2024E
P/FFO 1	6.5	7.3	7.5
P/NTA	0.2	0.3	0.2
FFO 1 Yield	15.4%	13.7%	13.3%
Div. Yield	0.0%	10.2%	10.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2023

Liquid Assets	€ 570.6m
Investment Properties	€ 9,451.9m
NTA*	€ 5,091.7m
Total Assets	€ 11,201.3m
Current Liabilities	€ 344.0m
Total Equity	€ 5,890.0m

* with RETT

SHAREHOLDERS

Edolaxia Ltd.	59.0%
Treasury	2.0%
Free float	39.0%



. . . many urbanites can no longer afford to buy town homes and are staying put. No properties were revalued in Q1, but the landlord plans to have the majority of its portfolio reassessed for six-month reporting and sticks to its view of roughly 5% devaluation risk. We have already baked this into our forecasts.

Q1 RESULT HIGHLIGHTS

GCP realised total LFL net rental growth of 2.6% comprising 0.5% occupancy increases and 2.1% in-place rent. In-place rent LFL contains 1.4% re-letting and 0.7% indexation. The strong performance owes to the aforementioned dynamics of the German and London rental markets.

Table 1: First quarter vs prior year and FBe

in €m	Q1/23	Q1/23E	Variance	Q1/22	Variance
Rental income	150	149	1.0%	133	12.4%
Net rent	101	101	0.3%	97	4.4%
Adjusted EBITDA	80	78	1.9%	76	4.1%
margin	78%	77%	-	79%	-
FFO 1 (after perpetuals)	47	46	3.3%	48	-2.9%
FFOPS 1 (€) (after perpetuals)	0.27	0.26	3.3%	0.29	-6.9%

Source: First Berlin Equity Research; Grand City Properties

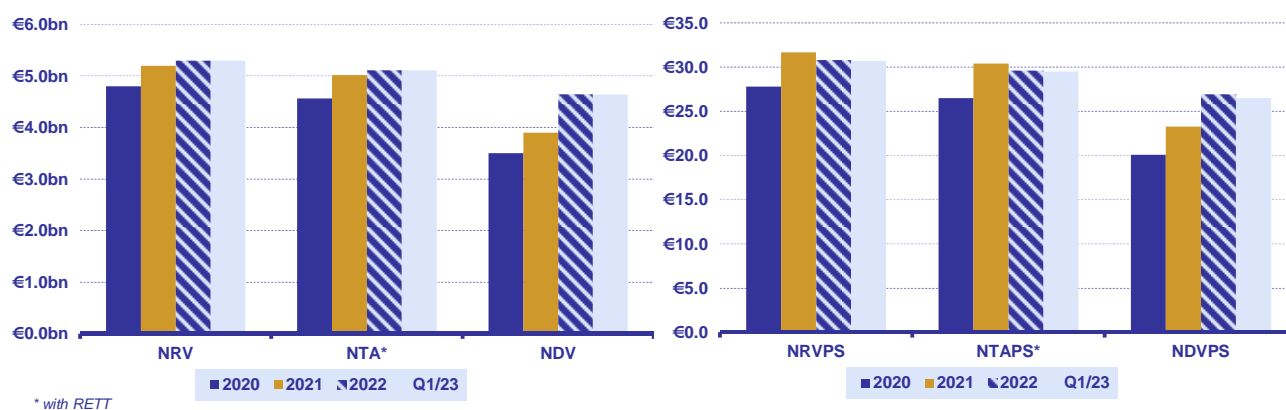
AEBITDA rose 4.1% Y/Y in the January-to-March period, thanks chiefly to the full impact of €250m in acquisitions from H1/22. FFO 1, the key industry indicator for recurring operational cash flow, topped our estimate at €47m in Q1/23 but missed the prior year result by 2.9%, mainly due to higher financing costs and perpetual note attribution. FFOPS 1 of €0.29 was ~6.9% lower on the higher share count stemming from the scrip dividend. Annualised FFOPS 1 corresponds to a 14.6% yield. FFO 2 was up 3% on the €145m in disposals executed at ~1% below book value. These allowed GCP to crystallise gains of ~€4m and boost liquidity.

First time usage of vendor loans GCP was able to get the Q1 disposals over the finish line with the help of a €60m vendor loan. Although this ties up some of the liquidity around two years, getting the deals done will give the landlord the extra cash in time to tackle the major debt maturities in 2026 and 2027. The latest batch of signed deals was not coupled with vendor loans, but we expect GCP to keep this in the toolbox if needed to get deals inked in the future.



Portfolio value steady at €2,273 / m² (YE22: €2,282 / m²) The company made no material acquisitions in the first quarter. In-place rent stood at €8.3 / m² at the end of Q1 vs €8.2 / m² at YE22, while the portfolio vacancy rate remained at a record low of 4.2%. Annualised net rent tallied €393m at the end of the reporting period. The portfolio currently has rent reversionary potential to €460m (~17%) to be captured over the mid- to long-term.

Figure 1: EPRA BPR reporting



Source: First Berlin Equity Research; Grand City Properties

Financial profile remains steady The balance sheet featured a stable LTV of 35% (YE22: 36%), or 46% assuming perpetual notes are counted as debt, while the net debt / EBITDA and interest coverage (ICR) ratios stood at 10.8x and 5.9x respectively at the end of Q1.

Table 2: Financial highlights

in €m	Q1/23	2022	Variance
Cash & liquid assets	571	429	33.1%
Investment property	9,452	9,530	-0.8%
Unencumbered assets	8,512	8,665	-1.8%
Unencumbered assets ratio	88%	88%	-
Total equity	5,890	5,914	-0.4%
EPRA NTA*	4,636	4,656	-0.4%
Loans and borrowings	383	323	18.6%
Straight & convertible bonds	3,615	3,612	0.1%
Loan-to-Value (LTV)	35%	36%	-
Equity ratio	53%	53%	-

* updated to exclude RETT

Source: First Berlin Equity Research; Grand City Properties



VALUATION MODEL

It remains difficult to predict when property stocks might trough, but the rebound potential will be good for GCP shares once the macro environment stabilises. Liquidity and leverage KPIs rank favourably vs residential peers, and we remain confident that the landlord can batten down the hatches in the meantime to ride out the storm. We stick to our Buy rating with a €12.8 TP.

Table 3: Discounted dividend model

	Unit	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
FFOPS 1	€	1.01	0.99	1.02	1.04	1.00	0.96	0.94	1.01	1.02
Payout ratio	%	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Dividend (DPS)	€	0.76	0.74	0.77	0.78	0.75	0.72	0.71	0.76	0.76
Y/Y	%	n.a.	-0.02	0.04	0.01	-0.04	-0.03	-0.02	0.07	n.a.
NPV	€	0.73	0.67	0.65	0.61	0.55	0.50	0.46	0.46	8.2
Terminal growth rate	%	1.0								
Discount rate	%	6.8								
NPV of dividends	€	4.6								
NPV of TV	€	8.2								
Fair value per share	€	12.8								

		Terminal growth						
		-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%
Discount rate	6.2%	11.9	12.5	13.3	14.2	15.4	16.8	18.5
	6.4%	11.5	12.1	12.9	13.7	14.7	16.0	17.6
	6.6%	11.2	11.8	12.4	13.2	14.2	15.3	16.8
	6.8%	10.9	11.4	12.1	12.8	13.6	14.7	16.0
	7.0%	10.6	11.1	11.7	12.4	13.2	14.1	15.3
	7.2%	10.3	10.8	11.3	12.0	12.7	13.6	14.7
	7.4%	10.1	10.5	11.0	11.6	12.3	13.1	14.1

		Cost of debt						
		2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%
Discount rate	6.2%	16.5	15.8	15.0	14.2	13.5	12.7	11.9
	6.4%	15.9	15.2	14.4	13.7	13.0	12.3	11.5
	6.6%	15.3	14.6	13.9	13.2	12.5	11.8	11.1
	6.8%	14.8	14.1	13.4	12.8	12.1	11.4	10.8
	7.0%	14.3	13.6	13.0	12.4	11.7	11.1	10.4
	7.2%	13.8	13.2	12.6	12.0	11.4	10.7	10.1
	7.4%	13.4	12.8	12.2	11.6	11.0	10.4	9.8



INCOME STATEMENT

All figures in EURm	2019	2020	2021	2022	2023E	2024E
Net rent	383	372	375	396	404	413
Rental and operating income	560	535	525	583	594	607
Property revaluations & capital gains	401	343	695	118	-217	152
Result from equity-accounted investees	0	4	4	0	0	0
Property expenses	-253	-226	-218	-266	-274	-275
Cost of buildings sold	0	0	0	0	0	0
Administration expenses	-11	-11	-11	-11	-11	-11
Depreciation & amortisation	-4	-5	-8	-10	-9	-9
Operating income (EBIT)	693	640	986	413	83	464
Finance expenses	-45	-53	-46	-47	-56	-60
Other financial results	-33	-46	-149	-137	0	0
Pre-tax income (EBT)	615	542	791	229	28	404
Current tax	-37	-31	-39	-39	-39	-41
Deferred tax	-84	-61	-135	-11	0	-15
Tax result	-121	-93	-174	-50	-39	-56
Minority interests	-53	-54	-69	-25	1	-42
Hybrid note investors	-33	-33	-25	-25	-35	-45
Net income	407	362	524	129	-45	262
Basic EPS (€)	2.43	2.13	3.12	0.77	-0.26	1.52
AEBITDA	298	300	299	308	309	321
Ratios						
AEBITDA margin (% of net rent)	77.8%	80.5%	79.7%	77.8%	76.5%	77.8%
Tax rate	12.5%	10.5%	13.1%	12.7%	12.7%	12.7%
Expenses (% of net rent)						
Property expenses	66.2%	60.8%	58.2%	67.2%	67.9%	66.6%
Administration expenses	3.0%	2.9%	3.0%	2.7%	2.6%	2.6%
Y-Y Growth						
Rental and operating income	2.8%	-4.4%	-2.0%	11.0%	2.0%	2.1%
Total revenues	2.8%	-4.4%	-2.0%	11.0%	2.0%	2.1%
Operating income	-11.1%	-7.6%	54.0%	-58.1%	-79.8%	456.7%
Adjusted EBITDA	8.0%	0.7%	-0.4%	3.2%	0.4%	3.8%
Net income/ loss	-16.7%	-11.0%	44.5%	-75.3%	n.m.	n.m.



BALANCE SHEET

All figures in EURm	2019	2020	2021	2022	2023E	2024E
Current assets, total	1,629	2,264	1,679	1,134	1,341	1,174
Cash and cash equivalents	914	1,412	895	325	809	633
Traded securities at fair value through P&L	155	286	218	112	112	112
Trade and other receivables	342	395	452	353	407	416
Inventories - Trading property	16	16	0	0	0	0
Assets held for sale	201	155	114	344	13	13
Non-current assets, total	8,223	8,602	9,883	9,997	9,876	10,270
Equipment and intangible assets	27	27	70	77	85	93
Investment property	7,981	8,043	9,364	9,550	9,403	9,769
Equity accounted investees	21	108	0	0	0	0
Other LT assets	151	373	397	316	329	342
Deferred tax assets	42	51	51	54	59	65
Total assets	9,851	10,866	11,562	11,131	11,217	11,443
Current liabilities, total	454	427	773	309	344	349
Short-term debt	33	147	455	5	5	5
Trade and other payables	288	209	216	225	256	256
Other current liabilities	133	71	103	79	84	89
Long-term liabilities, total	4,431	4,884	4,986	4,908	4,995	5,033
Long-term debt	521	427	353	319	400	750
Convertible and straight bonds	3,195	3,639	3,642	3,612	3,610	3,275
Deferred taxes	592	634	760	789	789	804
Other LT liabilities	122	183	231	189	197	205
Minority interests	444	535	615	666	664	706
Shareholders' equity	4,523	5,020	5,188	5,249	5,214	5,355
Total consolidated equity and debt	9,851	10,866	11,562	11,131	11,217	11,443
Ratios						
EPRA NTA (€m)	4,358	4,566	5,020	5,116	5,041	5,202
EPRA NTAPS (€)	25.9	26.5	30.4	29.6	29.3	30.2
Net debt (€m)	2,690	2,521	3,342	3,506	3,094	3,285
Net debt / equity (x)	0.6	0.5	0.6	0.7	0.6	0.6
Net debt / EBITDA (x)	9.0	8.4	11.2	11.4	10.0	10.2
Interest cover (x)	6.6	5.7	6.4	6.6	5.6	5.4
Loan-to-value (LTV)	33%	31%	36%	36%	33%	34%
Equity ratio	50%	51%	50%	53%	52%	53%
Return on equity (ROE)	9.9%	8.1%	10.6%	3.0%	-0.2%	5.7%



CASH FLOW STATEMENT

All figures in EURm	2019	2020	2021	2022	2023E	2024E
Net income	493	449	617	179	-11	348
Depreciation and amortisation	4	5	8	10	9	9
Profit from equity accounted investees	0	-4	-4	0	0	0
Change in fair value of investment properties	-401	-343	-695	-118	217	-152
Net finance expenses	78	98	195	184	56	60
Tax result	121	93	174	50	39	56
Others	2	2	3	3	0	0
Operating cash flow	298	300	299	308	309	321
Change in working capital	-20	-29	-45	-61	-17	-1
Tax paid	-28	-28	-37	-31	-39	-41
Net cash flow from operating activities	249	242	217	216	253	279
Investment in fixed/intangible assets	-7	-7	-8	-5	-17	-18
Net property investments / disposals	-194	-492	-465	-242	261	-214
Acquisition of subsidiaries	31	547	333	-4	0	0
Proceeds from investments in financial assets	117	-439	-58	82	-13	-13
Cash flow from investing	-53	-392	-198	-168	232	-245
Debt financing, net	360	559	-71	-486	79	15
Equity financing, net	-33	207	-91	-25	-25	-35
Share buyback	0	0	-272	0	0	0
Dividend paid	-107	-71	-54	-56	0	-131
Other financing activities	-55	7	0	-2	0	0
Net paid financing expenses	-50	-51	-50	-47	-56	-60
Cash flow from financing	115	651	-537	-617	-1	-211
Fx effects	0	-3	2	-1	0	0
Net cash flows	311	498	-517	-571	484	-176
Cash, start of the year	603	914	1,412	895	325	809
Cash, end of the year	914	1,412	895	325	809	633
AEBITDA / share (€)	1.77	1.74	1.69	1.75	1.76	1.82
FFO 1	179	182	186	192	174	170
FFOPS 1 (€)	1.07	1.07	1.11	1.14	1.01	0.99
Y-Y Growth						
Operating cash flow	11.1%	-2.9%	-10.4%	-0.4%	17.2%	10.3%
Adjusted EBITDA / share	7.3%	-1.6%	-2.8%	3.2%	0.4%	3.8%
FFO 1	6.8%	1.8%	2.3%	3.2%	-9.3%	-2.4%
FFOPS 1	5.8%	0.3%	3.6%	2.8%	-11.5%	-2.4%

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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...46	↓	↓	↓	↓
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	16 August 2022	€13.86	Buy	€24.00
51	12 October 2022	€9.29	Buy	€19.00
52	17 November 2022	€10.51	Buy	€16.80
53	21 March 2023	€7.32	Buy	€12.80
54	21 May 2023	€7.18	Buy	€12.80
55	Today	€7.41	Buy	€12.80

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/>

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