

Grand City Properties S.A.

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

Nine Month
 Results

RATING
BUY

PRICE TARGET
€ 12.60

Return Potential 38.3%
 Risk Rating Medium

STONE STILL CAUTIOUS DESPITE ENCOURAGING OPERATIONS

LFL rental growth of 3.1% led good operational performance in Q3. Management bumped up their LFL guide to ~3.0% (old: >2.0%), while hinting that 2024 could see similar growth shaped by the steadfast low supply and high occupancy rates of German resi. As anticipated, FFO 1 took a small hit in Q3 (-1.3%) due to higher financing costs and perpetual note attribution. Cash and liquid assets tallied €1.1bn and cover debt maturities until Q2/26. Property stocks and GCP shares (+8%) caught a bid Tuesday on America's new inflation data showing that real estate investors are still laser focused on interest rate expectations. We remain Buy-rated on GCP with a €12.6 target price (old: €12.8).

Transaction and financing markets remain tricky Operations continued their good momentum in Q3 (overleaf), prompting GCP brass to bump up the LFL rental growth guide. Topline and operating KPI's extended their gradual ascent, helping offset higher financing costs. Nevertheless, management continue to sound a cautious tone pointing towards a largely dormant transaction market aside from a few small volume deals. Offers for larger portfolios have dried up with higher financing costs the culprit, and GCP didn't venture to guess when this may improve. Banks are also becoming more selective, which is lengthening loan processing times and may ultimately tighten access to liquidity for landlords. GCP has secured €550m in bank debt YTD at a 1.4% margin over Euribor. This includes €110m signed in Q4. The landlord still has a ~€7bn pool of unencumbered assets in its debt management tool belt vs €8.7bn at YE22, and GCP remains in talks with its lenders for further debt and wants to stay ahead of the tightening signals from bankers.

More conference call takeaways Residential property peer, TAG Immobilien AG, announced earlier this week it will not propose a dividend to next year's AGM in order to husband cash. When asked on the earnings call about their thoughts on next year's dividend, GCP management noted that. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022	2023E	2024E
Rental income (€m)	560.3	535.4	524.6	582.5	599.4	607.8
Y/Y growth	2.8%	-4.4%	-2.0%	11.0%	2.9%	1.4%
Adj. EBITDA (€m)	297.7	299.8	298.6	308.1	313.1	321.6
Net income (€m)	406.9	362.2	523.5	129.2	-650.6	113.4
EPRA NTA (€m)	4,357.7	4,566.4	5,020.2	4,655.6	3,888.3	3,865.8
EPRA NTAPS (€)	25.9	26.5	30.4	27.0	22.6	22.4
DPS (€)	0.82	0.82	0.83	0.00	0.77	0.74
FFO 1* (€m)	179.0	182.2	186.3	192.2	176.5	169.4
FFOPS 1* (€)	1.07	1.07	1.11	1.14	1.02	0.98
Liquid assets (€m)	1,069.5	1,697.9	1,113.5	436.8	933.9	716.8

*Updated to exclude 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.

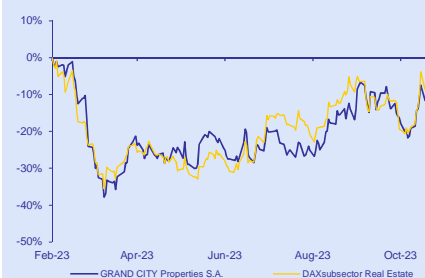
MARKET DATA

As of 15 Nov 2023

Closing Price	€ 9.11
Shares outstanding	176.18m
Market Capitalisation	€ 1,605.00m
52-week Range	€ 6.09 / 11.35
Avg. Volume (12 Months)	225,527

Multiples	2022	2023E	2024E
P/FFO 1	8.0	9.0	9.4
P/NTA	0.3	0.4	0.4
FFO 1 Yield	12.4%	11.1%	10.7%
Div. Yield	0.0%	8.4%	8.1%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2023

Liquid Assets	€ 1,070.6m
Investment Properties	€ 8,983.0m
EPRA NTA	€ 4,262.0m
Total Assets	€ 11,151.0m
Current Liabilities	€ 681.3m
Total Equity	€ 5,508.4m

SHAREHOLDERS

Edolaxia Ltd.	60.0%
Treasury	2.0%
Free float	38.0%



. . . “it doesn’t look good” from today’s perspective citing the high rate environment. We reckon, GCP brass will wait until the 11th hour for things to play out before taking a decision on a payout on 2023 performance. For now the company is sticking to its usual 75% of FFO1 policy.

GCP had the entire portfolio assessed by external auditors in Q2. Higher discount and cap rates on the back of higher interest rates led to decrease in property valuations of some €532m. Now the landlord wants to repeat the exercise in Q4 to capture the most up-to-date market conditions for full year 2023 reporting. While not wanting to make a firm call on the downside risk, management hinted that we could see additional write-downs of 5% with the next assessment. We have now factored this into 2023 FBe.

Q3 RESULT HIGHLIGHTS

GCP realised total LFL net rental growth of 3.1% comprising 0.3% occupancy increases and 2.8% in-place rent. In-place LFL rent contains 1.4% re-letting and 1.4% indexation. The strong performance owes to the aforementioned macro trends in the German market with hubs such as Hamburg, Nuremberg, Bremen and Leipzig spearheading the KPI.

The high rate environment and tight supply also mean that tenants are far more reluctant to move out of their flats. The portfolio featured another record vacancy low, and GCP expects occupancy growth to remain limited until market fundamentals change.

Table 1: Third quarter vs prior year and FBe

in €m	Q3/23	Q3/23E	Variance	Q3/22	Variance	9M/23	9M/22	Variance
Rental income	147	147	-0.3%	152	-3.9%	456	424	7.4%
Net rent	104	103	0.5%	100	3.7%	308	295	4.3%
Adjusted EBITDA	80	80	-0.5%	78	1.9%	240	230	4.1%
margin	77%	78%	-	78%	-	78%	78%	-
FFO 1 (after perpetuals)	47	47	-0.4%	48	-1.3%	141	145	-2.5%
FFOPS 1 (€) (after perpetuals)	0.28	0.28	-0.4%	0.28	-1.3%	0.82	0.87	-5.7%
	0							

Source: First Berlin Equity Research; Grand City Properties

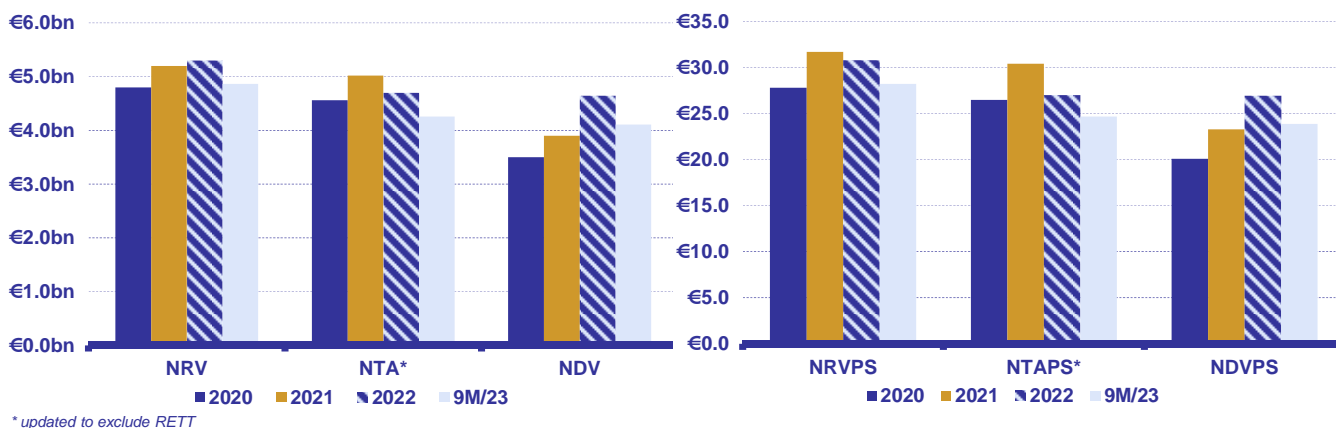
AEBITDA rose 2% Y/Y in the July-to-September period, driven chiefly by the rise in net rental income. FFO 1, the key industry indicator for recurring operational cash flow, matched our estimate at €47m in Q3/23 but fell shy of the prior year result by 1.3%, mainly due to higher financing costs from new and existing debt plus perpetual note attribution. FFOPS 1 of €0.28 was also ~1.3% lower Y/Y.

On a nine month basis, the headline KPIs outperformed on par with Q3 figures. FFO 1 took a 2.5% hit during the nine months before October, owing to higher financing costs that offset the increases in NRI and AEBITDA in 9M/23. FFO 2 was up 16% in 9M on the €270m in disposals executed at ~3% below book value. These allowed GCP to crystallise gains of ~€36m and boost liquidity. Much of this work was accomplished in 2022 and H1 with the transaction market largely at a standstill of late.



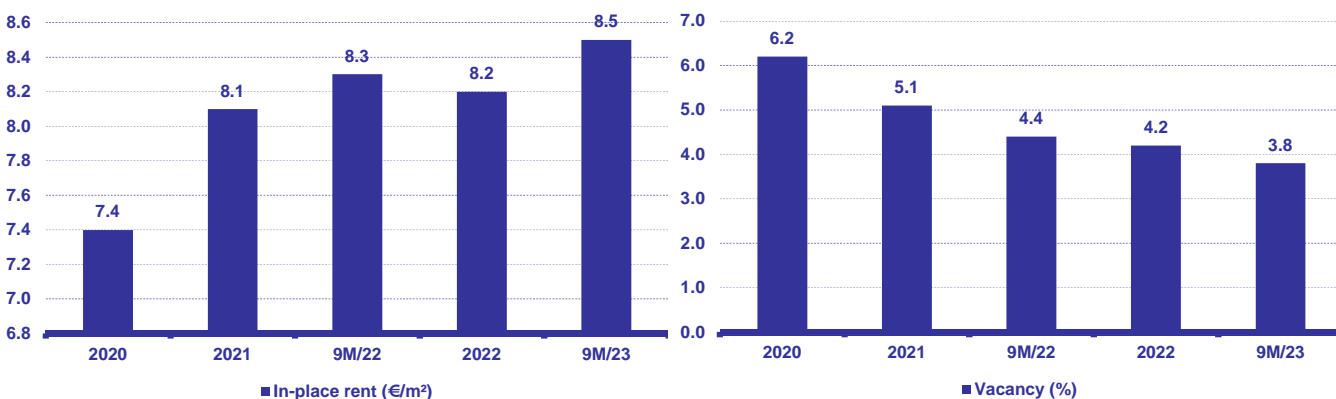
Portfolio value steady at €2,180 / m² (Q2/23: €2,183 / m²) The company made no material acquisitions in 9M/23. Q3 in-place rent stood at €8.5 / m² vs €8.4 / m² at the end of Q2 and €8.2 / m² at YE22, while the portfolio vacancy rate remained at a record low of 3.8%. Annualised net rent tallied €402m at the end of the reporting period compared to €398m in Q2. The portfolio currently has rent reversionary potential to €470m (~17%) to be captured over the mid- to long-term.

Figure 1: EPRA BPR reporting



Source: First Berlin Equity Research; Grand City Properties

Figure 2: In-place rent and vacancy developments



Source: First Berlin Equity Research; Grand City Properties

More devaluations on the way The balance sheet featured a stable LTV of 36% (YE22: 36%), or 47% assuming perpetual notes are counted as debt. The net debt / EBITDA and interest coverage (ICR) ratios stood at 10.1x and 5.7x respectively at the end of Q3. We note that another €500m decrease in property valuations is possible in Q4.

**Table 2: Overview of perpetual notes**

Currency	Outstanding Volume (m)	Current Coupon (%)	Reset Rate (%)	Call Date
EUR	200	6.332	3.887 + 5Y mid-Sw ap	22-Jan-2028
EUR	350	5.901	2.682 + 5Y mid-Sw ap	24-Oct-2028
EUR	700	1.500	2.184 + 5Y mid-Sw ap	09-Jun-2026

Source: First Berlin Equity Research; Grand City Properties

The next hybrid reset Grand City has roughly €1.25bn in hybrid notes on the balance sheet and recently let the coupon on the October hybrid notes reprice at a sharply higher level of 5.901% (old: 2.50%). Given still unfavourable refinancing terms, we had already factored a reset of the October notes into our model. The full effect of the two resets will be a nearly €19m increase in coupon payments on an annualised basis. The reset for the largest note (€700m) isn't until June 2026, which may be far enough out for rates to retreat to allow for a more palatable refinancing.

Table 3: Financial highlights

in €m	9M/23	2022	Variance
Cash & liquid assets	1,071	429	149.7%
Investment property	8,983	9,530	-5.7%
Unencumbered assets	6,963	8,665	-19.6%
Unencumbered assets ratio	76%	88%	-
Total equity	5,508	5,914	-6.9%
EPRA NTA*	4,262	4,656	-8.5%
Loans and borrowings	759	323	135.0%
Straight & convertible bonds	3,533	3,612	-2.2%
Loan-to-Value (LTV)	36%	36%	-
Equity ratio	49%	53%	-

* updated to exclude RETT

Source: First Berlin Equity Research; Grand City Properties

**Table 4: Confirmed guidance vs FBe**

	Unit	Guidance		FBe 2023	2022A
		Initial	Current		
FFO 1	€m	170 -180	175 -185	177	192
FFOPS 1	€	0.99 - 1.04	1.01 - 1.07	1.02	1.14
DPS *	€	0.74 - 0.78	0.76 - 0.80	0.77	0.00
LFL net rent growth	%	1.0 - 2.0	~3.0	2.8	2.9
LTV	%	< 45	< 45	36	36

**subject to market conditions and AGM approval*

Source: First Berlin Equity Research; Grand City

We have updated our 2023 forecasts to reflect the YTD operational performance. 2023 FBe also now factors in a further €485m decrease in property valuations with the communicated portfolio reassessment in Q4. Following the latest rise in German bonds yields, we have upped our risk free rate to 2.6% (old: 2.4%). The net impact of these changes points to a €12.6 TP (old: €12.8). We maintain our Buy rating.

Table 5: Changes to FBe and target price

	old	new	revision	upside	dividend yield	total upside
Price target (€)	12.8	12.6	-1.6%	38.3%	8.4%	46.7%
	2023E			2024E		
in €m	Old	New	Variance	Old	New	Variance
Net rent (NRI)	408	408	0.0%	413	413	0.1%
AEBITDA	311	313	0.5%	320	322	0.5%
margin (NRI)	76%	77%	-	-	78%	-
FFO 1	175	177	0.8%	168	169	0.8%
Margin	43%	43%	-	-	41%	-
FFOPS 1 (€)	1.01	1.02	0.8%	0.97	0.98	0.8%

Source: First Berlin Equity Research estimates



DISCOUNTED DIVIDEND MODEL

	Unit	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
FFOPS 1	€	1.02	0.98	1.03	1.03	0.99	0.96	0.94	1.00	1.01
Payout ratio	%	75	75	75	75	75	75	75	75	75
Dividend (DPS)	€	0.77	0.74	0.77	0.78	0.75	0.72	0.70	0.75	0.76
Y/Y	%	n.a.	-0.04	0.05	0.01	-0.04	-0.04	-0.02	0.07	n.a.
NPV	€	0.76	0.68	0.67	0.63	0.56	0.51	0.46	0.46	7.9
Terminal growth rate	%	1.0								
Discount rate	%	7.0								
NPV of dividends	€	4.7								
NPV of TV	€	7.9								
Fair value per share	€	12.6								

		Terminal growth						
		-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%
Discount rate	6.4%	11.7	12.4	13.1	13.9	15.0	16.2	17.8
	6.6%	11.4	12.0	12.7	13.5	14.4	15.6	17.0
	6.8%	11.1	11.7	12.3	13.0	13.9	14.9	16.2
	7.0%	10.9	11.4	11.9	12.6	13.4	14.4	15.6
	7.2%	10.6	11.1	11.6	12.2	13.0	13.9	14.9
	7.4%	10.3	10.8	11.3	11.9	12.6	13.4	14.4
	7.6%	10.1	10.5	11.0	11.5	12.2	12.9	13.8



INCOME STATEMENT

All figures in EURm	2019	2020	2021	2022	2023E	2024E
Net rent	383	372	375	396	408	413
Rental and operating income	560	535	525	583	599	608
Property revaluations & capital gains	401	343	695	118	-1,025	-35
Result from equity-accounted investees	0	4	4	0	0	0
Property expenses	-253	-226	-218	-266	-277	-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	-723	278
Finance expenses	-45	-53	-46	-47	-57	-61
Other financial results	-33	-46	-149	-137	-40	0
Pre-tax income (EBT)	615	542	791	229	-820	217
Current tax	-37	-31	-39	-39	-40	-41
Deferred tax	-84	-61	-135	-11	144	4
Tax result	-121	-93	-174	-50	104	-37
Minority interests	-53	-54	-69	-25	100	-22
Hybrid note investors	-33	-33	-25	-25	-35	-45
Net income	407	362	524	129	-651	113
Basic EPS (€)	2.43	2.13	3.12	0.77	-3.78	0.66
AEBITDA	298	300	299	308	313	322
Ratios						
AEBITDA margin (% of net rent)	77.8%	80.5%	79.7%	77.8%	76.8%	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%	2.9%	1.4%
Total revenues	2.8%	-4.4%	-2.0%	11.0%	2.9%	1.4%
Operating income	-11.1%	-7.6%	54.0%	-58.1%	n.m.	n.m.
Adjusted EBITDA	8.0%	0.7%	-0.4%	3.2%	1.6%	2.7%
Net income/ loss	-16.7%	-11.0%	44.5%	-75.3%	n.m.	n.m.
Funds from Operations (FFO)						
Operating profit	693	640	986	413	-723	278
Depreciation and amortisation	4	5	8	10	9	9
EBITDA	697	645	994	423	-714	287
Property revaluations & capital gains	-401	-343	-695	-118	1,025	35
Others	2	-2	-1	3	1	0
Adjusted EBITDA	298	300	299	308	313	322
Financial expense	-45	-53	-46	-47	-57	-61
Tax	-37	-31	-39	-39	-40	-41
Minority & JV contributions	-4	-1	-2	-5	-5	-5
FFO 1 (before perpetuals)	212	215	211	217	211	214
Perpetual note adjustment	-33	-33	-25	-25	-35	-45
FFO 1	179	182	186	192	177	169
CapEx	-76	-62	-63	-99	-62	-62
AFFO	103	120	123	93	114	108



BALANCE SHEET

All figures in EURm	2019	2020	2021	2022	2023E	2024E
Current assets, total	1,629	2,264	1,679	1,134	1,458	1,146
Cash and cash equivalents	914	1,412	895	325	822	605
Traded securities at fair value though P&L	155	286	218	112	112	112
Trade and other receivables	342	395	452	353	411	416
Inventories - Trading property	16	16	0	0	0	0
Assets held for sale	201	155	114	344	113	13
Non-current assets, total	8,223	8,602	9,883	9,997	8,941	9,241
Equipment and intangible assets	27	27	70	77	79	87
Investment property	7,981	8,043	9,364	9,550	8,475	8,747
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	10,399	10,387
Current liabilities, total	454	427	773	309	346	350
Short-term debt	33	147	455	5	5	5
Trade and other payables	288	209	216	225	258	257
Other current liabilities	133	71	103	79	84	89
Long-term liabilities, total	4,431	4,884	4,986	4,908	4,880	4,851
Long-term debt	521	427	353	319	500	750
Convertible and straight bonds	3,195	3,639	3,642	3,612	3,538	3,256
Deferred taxes	592	634	760	789	645	641
Other LT liabilities	122	183	231	189	197	205
Minority interests	444	535	615	666	565	587
Shareholders' equity	4,523	5,020	5,188	5,249	4,608	4,599
Total consolidated equity and debt	9,851	10,866	11,562	11,131	10,399	10,387
Ratios						
EPRA NTA* (€m)	4,358	4,566	5,020	4,656	3,888	3,866
EPRA NTAPS* (€)	25.9	26.5	30.4	27.0	22.6	22.4
Net debt (€m)	2,690	2,521	3,342	3,506	3,109	3,294
Net debt / equity (x)	0.6	0.5	0.6	0.7	0.7	0.7
Net debt / EBITDA (x)	9.0	8.4	11.2	11.4	9.9	10.2
Interest cover (x)	6.6	5.7	6.4	6.6	5.5	5.3
Loan-to-value (LTV)	33%	31%	36%	36%	36%	38%
Equity ratio	50%	51%	50%	53%	50%	50%
Return on equity (ROE)	9.9%	8.1%	10.6%	3.0%	-13.8%	3.5%

* updated to exclude RETT



CASH FLOW STATEMENT

All figures in EURm	2019	2020	2021	2022	2023E	2024E
Net income	493	449	617	179	-716	180
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	1,025	35
Net finance expenses	78	98	195	184	97	61
Tax result	121	93	174	50	-104	37
Others	2	2	3	3	0	0
Operating cash flow	298	300	299	308	312	322
Change in working capital	-20	-29	-45	-61	-18	0
Tax paid	-28	-28	-37	-31	-40	-41
Net cash flow from operating activities	249	242	217	216	254	281
Investment in fixed/intangible assets	-7	-7	-8	-5	-11	-17
Net property investments / disposals	-194	-492	-465	-242	281	-207
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	258	-237
Debt financing, net	360	559	-71	-486	107	-32
Equity financing, net	-33	207	-91	-25	-25	-35
Share buyback	0	0	-272	0	0	0
Dividend paid	-107	-71	-54	-56	0	-132
Other financing activities	-55	7	0	-2	-40	0
Net paid financing expenses	-50	-51	-50	-47	-57	-61
Cash flow from financing	115	651	-537	-617	-15	-261
Fx effects	0	-3	2	-1	0	0
Net cash flows	311	498	-517	-571	497	-217
Cash, start of the year	603	914	1,412	895	325	822
Cash, end of the year	914	1,412	895	325	822	605
AEBITDA / share (€)	1.77	1.74	1.69	1.75	1.78	1.83
FFO 1	179	182	186	192	177	169
FFOPS 1 (€)	1.07	1.07	1.11	1.14	1.02	0.98
Y-Y Growth						
Operating cash flow	11.1%	-2.9%	-10.4%	-0.4%	17.6%	10.5%
Adjusted EBITDA / share	7.3%	-1.6%	-2.8%	3.2%	1.6%	2.7%
FFO 1	6.8%	1.8%	2.3%	3.2%	-8.2%	-4.1%
FFOPS 1	5.8%	0.3%	3.6%	2.8%	-10.4%	-4.1%

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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...48	↓	↓	↓	↓
49	18 March 2022	€19.32	Buy	€28.00
50	18 May 2022	€16.43	Buy	€24.50
51	16 August 2022	€13.86	Buy	€24.00
52	12 October 2022	€9.29	Buy	€19.00
53	17 November 2022	€10.51	Buy	€16.80
54	21 March 2023	€7.32	Buy	€12.80
55	21 May 2023	€7.18	Buy	€12.80
56	17 August 2023	€7.32	Buy	€12.80
57	Today	€9.11	Buy	€12.60

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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