

Grand City Properties S.A.

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

Q3/24 results

RATING
BUY

PRICE TARGET
€ 15.40

Return Potential 28.8%
 Risk Rating Medium

READY FOR MARKET UPTURN

Q3 reporting again featured a good operating performance. Management's tenor has brightened significantly since YE23. Analyst calls are now more focused on how to capture operating upside fuelled by supportive market dynamics rather than prior deleveraging and balance sheet topics. The September quarter performance was led by 3.5% LFL rental growth and operational positives. The combo helped offset the rise in perpetual note costs allowing FFO 1 to match the prior year result (€141m). Management confirmed guidance but now expect FFO 1 towards the upper end of the range (€180m to €190m). We have nudged our estimates towards the top end of the guide and maintain our Buy rating with a €15.4 TP (old: €15.1).

Ready for market upturn The landlord published another set of solid quarterly numbers and the mood of GCP brass remained "cautiously" upbeat. Earnings call topics covered: (1) the still favourable resi market dynamics with the less restricted London market leading rental growth; (2) slowing yield expansion now mainly traced to operational growth; (3) improving sentiment about a thawing transaction market (overleaf); (4) disposal plans, but only if the price is right; and (5) optimism that 2025 revaluations could turn positive for the first time in two years.

Other conference call takeaways GCP expects to be a net seller in H1/25 and now only considers deals at book value, whereas small discounts had been acceptable in previous quarters. Q4 property revaluations are likely to be a key influence on management's its dividend proposal to the AGM. But GCP brass did say a change in the payout ratio is not on the table. We note that property peer, TAG Immobilien, announced Wednesday it will resume its dividend albeit at 40% of FFO 1 (old: 75%). Plus, plans for extending the *Mietspiegel* (residential rental index), which is set to expire in 2025, are up in the air after Germany's fractious coalition fell apart 6 November. The landlord noted the CDU originally introduced the *Mietspiegel*—we thus reckon it is more likely than not to be extended to 2028 if the party polls well next election. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023	2024E	2025E
Rental income (€m)	535.4	524.6	582.5	607.7	597.2	618.0
Y/Y growth	-4.4%	-2.0%	11.0%	4.3%	-1.7%	3.5%
Adj. EBITDA (€m)	299.8	298.6	308.1	319.6	335.5	348.6
Net income (€m)	362.2	523.5	129.2	-547.5	-071.8	144.3
EPRA NTA (€m)	4,566.4	5,020.2	4,655.6	4,013.8	3,909.7	3,929.1
EPRA NTAPS (€)	26.5	30.4	27.0	23.2	22.6	22.8
DPS (€)	0.82	0.83	0.00	0.00	0.81	0.80
FFO 1 (€m)	182.2	186.3	192.2	183.9	186.6	184.9
FFOPS 1 (€)	1.07	1.11	1.14	1.07	1.08	1.07
Liquid assets (€m)	1,697.9	1,113.5	436.8	1,253.8	1,642.2	1,435.7

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 14 Nov 2024

Closing Price	€ 11.96
Shares outstanding	176.19m
Market Capitalisation	€ 2,107.23m
52-week Range	€ 8.40 / 13.19
Avg. Volume (12 Months)	150,161

Multiples	2023	2024E	2025E
P/FFO 1	11.2	11.1	11.2
P/NTA	0.5	0.5	0.5
FFO 1 Yield	8.9%	9.0%	9.0%
Div. Yield	0.0%	6.8%	6.7%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2024

Liquid Assets	€ 1,875.5m
Investment Properties	€ 8,464.4m
Total Assets	€ 11,020.0m
Current Liabilities	€ 808.4m
EPRA NTA	€ 3,985.0m
Total Equity	€ 5,130.1m

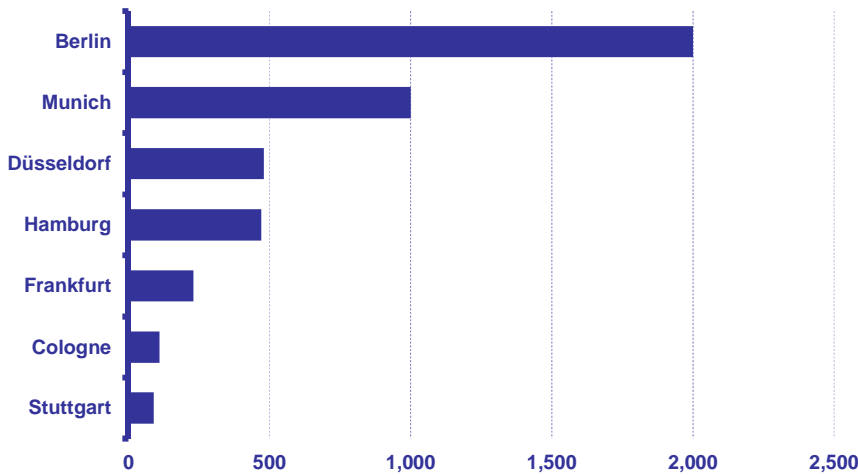
SHAREHOLDERS

Edolaxia Ltd.	62.0%
Treasury	2.0%
Free float	36.0%



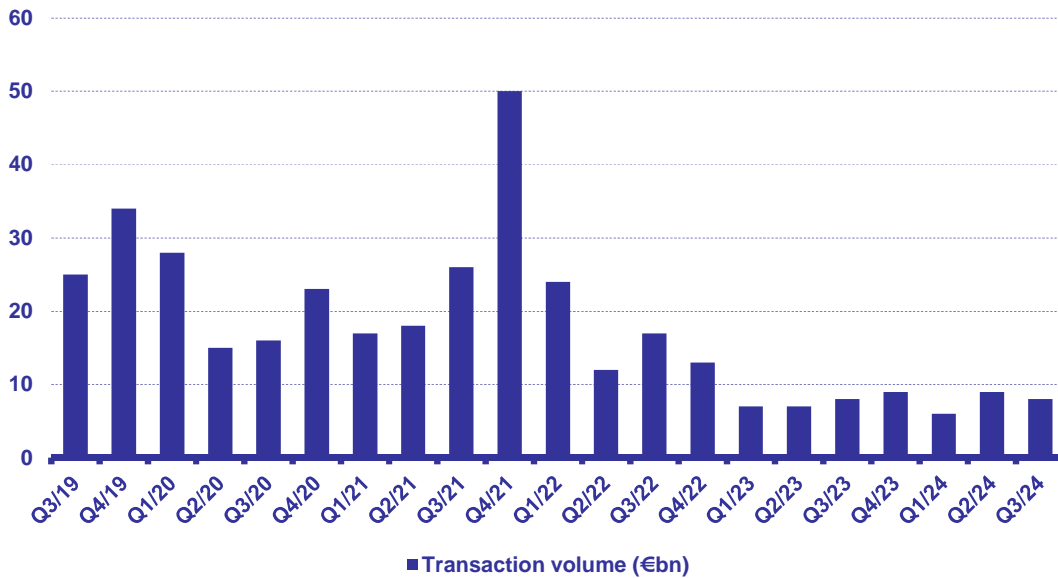
Transaction markets not quite there yet The property market recovery "remains arduous" according to JLL (Jones Lang LaSalle), a global property services outfit. In the first nine months of 2024, the German real estate investment market registered a transaction volume of around €23.4bn. This represents a 5% increase on the previous year period but is down a whopping 56% vs the 9M/22 comp.

Figure 1: German residential transaction volume 9M/24 (in €m)



Source: First Berlin Equity Research; JLL October 2024

Figure 2: German property transaction volume development



Source: First Berlin Equity Research; JLL October 2024

But the mood is improving. JLL recently polled investors about European property markets. More than half of respondents said they expect the situation in Europe to improve over the next six months. Only 23% felt this way at the end of 2023. Plus, Germany should be one of the first markets to pick up, thanks to its high liquidity and transparency. Although the first round of rate cuts by the ECB and Fed have yet to positively impact the markets, we reckon this is a matter of time. The all-important 5 year swap is near a two-year low of 2.3% after peaking last October just north of 3.5%, and GCP noted that the number of interested buyers at the deal table has trebled to 12 to 15 of late. These trends should also help prod sidelined property investors into action.



Q3 RESULT HIGHLIGHTS

GCP realised total LFL net rental growth of 3.5% comprising 3.6% in-place rent and minus 0.1% occupancy increases with the latter KPI gated by the low portfolio vacancy rate. In-place LFL rent contains 2.1% re-letting and 1.5% indexation. The strong performance stems once again from the systemic supply-demand imbalance in key German metropolitan hubs and London—a theme that has become old hat.

Table 1: Third quarter vs prior year and FBe

in €m	Q3/24	Q3/24E	Variance	Q3/23	Variance	9M/24	9M/23	Variance
Rental income	149	149	0.2%	147	1.6%	447	456	-2.0%
Net rent	105	103	2.3%	114	-7.1%	317	318	-0.2%
Adjusted EBITDA	84	83	1.7%	80	6.0%	251	240	4.5%
margin	80%	81%	-	70%	-	79%	75%	-
FFO 1 (after perpetuals)	47	44	7.4%	47	0.6%	141	141	0.0%
FFOPS 1 (€) (after perpetuals)	0.28	0.26	7.4%	0.28	0.6%	0.82	0.82	0.0%

Source: First Berlin Equity Research; Grand City Properties

AEBITDA rose 6.0% Y/Y in the September quarter, driven chiefly by the rise in net rent and a compressed operating cost base traced to improving platform efficiency. FFO 1, the key industry indicator for recurring operational cash flow, beat our estimate at €47m and matched the prior year result, despite higher financing costs from new and existing debt plus perpetual note attribution. FFOPS 1 of €0.28 was also in line Y/Y. There were no revaluation results registered in Q3, and the landlord still plans to have the entire portfolio assessed again for 2024 reporting.

On a nine month basis, headline KPIs performed on par with Q3 figures. FFO 1 was stable during the January-to-September period, as higher financing costs offset the increases in NRI and AEBITDA in H1/24. FFO 2 tallied €142m in 9M on the €170m in disposals completed at < 2% below net book value. This led to a marginal profit over total costs including CapEx of €0.8m.

Liability management helps offset negative valuations The balance sheet featured a stable LTV of 36% (YE23: 37%), or 48% assuming perpetual notes are counted as debt. The net debt / EBITDA and interest coverage (ICR) ratios stood at 9.1x and 5.6x respectively at the end of Q3.

Table 2: Financial highlights

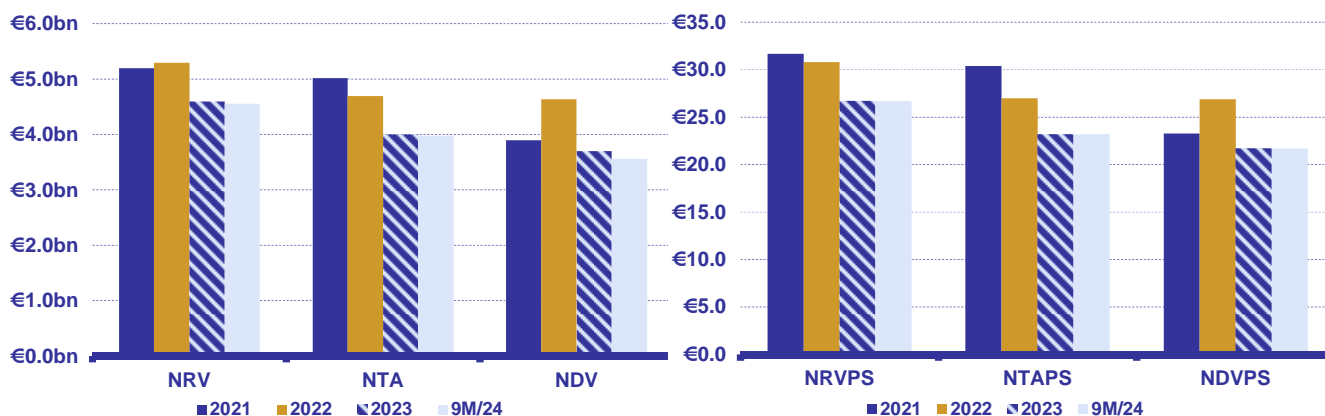
in €m	9M/24	2023	Variance
Cash & liquid assets	1,458	1,230	19%
Investment property	8,464	8,629	-2%
Unencumbered assets	6,526	6,607	-1%
Unencumbered assets ratio	72%	75%	-
Total equity	5,130	5,230	-2%
EPRA NTA	3,985	4,014	-1%
Loans and borrowings	971	872	11%
Straight & convertible bonds	3,528	3,560	-1%
Loan-to-Value (LTV)	36%	37%	-
Equity ratio	47%	49%	-

Source: First Berlin Equity Research; Grand City Properties



Portfolio value at €2,113 / m² (YE23: €2,109 / m²) Once again GCP made no acquisitions in the September quarter. In-place rent stood at €9.0 / m² at the end of Q3 vs €8.6 / m² at YE23, while the portfolio vacancy rate remained steady at 3.9%. Annualised net rent tallied €413m at the end of the reporting period. The portfolio currently has net reversionary potential to €512m (~24%) to be captured over the mid- to long-term, which is up from +17% a year ago.

Figure 3: EPRA BPR reporting



Source: First Berlin Equity Research; Grand City Properties

Table 3: Confirmed 2024 guidance vs FBe

	Unit	Guidance			
		Initial	Updated	FBe 2024	2023A
FFO 1	€m	175 -185	180 -190	187	184
FFOPS 1	€	1.01 - 1.07	1.04 - 1.10	1.08	1.07
DPS *	€	0.76 - 0.80	0.78 - 0.83	0.81	0.00
LFL net rent growth	%	~3.0	>3.0	3.4	3.3
LTV	%	< 45	< 45	36	36

*subject to market conditions and AGM approval

Source: First Berlin Equity Research; Grand City Properties

We have revised FBe to reflect the 9M operational performance and move towards the upper end of confirmed guidance with rental growth, operating efficiency, and interest run rates again narrowly outperforming old FBe. Updated forecasts now point to a DCF valuation of €15.4 (old: €15.1).

Table 4: Changes to FBe and TP

	old	new	revision	upside	dividend yield	total upside
Price target (€)	15.1	15.4	2.0%	28.8%	6.8%	35.5%
		2024E		2025E		
in €m	Old	New	Variance	Old	New	Variance
Net rent (NRI)	418	418	0.0%	433	433	0.0%
AEBITDA	333	336	0.9%	347	349	0.5%
margin (NRI)	80%	80%	-	80%	81%	-
FFO 1	178	187	5.0%	177	185	4.7%
Margin	42%	45%	-	41%	43%	-
FFOPS 1 (€)	1.03	1.08	5.0%	1.03	1.08	4.7%

Source: First Berlin Equity Research estimates



VALUATION MODEL

Maintain Buy rating Good operating results are becoming old hat (in a good way), and now the interest rate rollercoaster is running out of steam. We expect newsflow to remain upbeat as we head into 2025 when: (1) the transaction market could see an uptick from still depressed levels; (2) yield expansion could flip; and (3) the dividend is likely to be resumed.

Figure 4: DCF model

All figures in EURm	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
AEBITDA	336	349	369	389	406	423	440	457
(-) Tax	-45	-47	-50	-52	-55	-57	-59	-62
(=) Net operating cash flow	290	302	319	336	351	366	381	396
(-) Total investments (CapEx and WC)	175	-226	-213	-205	-194	-185	-178	-182
(-) Capital expenditures	202	-219	-202	-194	-185	-176	-170	-173
(-) Working capital	-27	-7	-11	-11	-9	-9	-9	-9
(=) Free cash flows (FCF)	465	76	105	131	157	181	203	214
PV of FCF's	462	72	95	112	128	141	149	150

All figures in EUR '000		Terminal AEBITDA margin							
		WACC	81.0%	81.5%	82.0%	82.5%	83.0%	83.5%	84.0%
PV of FCFs in explicit period	2,352	4.5%	23.9	24.3	24.8	25.2	25.7	26.1	26.5
PV of FCFs in terminal period	4,724	4.7%	20.3	20.7	21.1	21.5	21.8	22.2	22.6
Enterprise value (EV)	7,076	4.9%	17.1	17.5	17.9	18.2	18.6	18.9	19.3
+ Net cash / - net debt	-3,202	5.1%	14.4	14.7	15.1	15.4	15.7	16.0	16.4
Hybrid capital	-1,224	5.3%	12.0	12.3	12.6	12.9	13.2	13.5	13.8
Shareholder value	2,650	5.5%	9.9	10.1	10.4	10.7	11.0	11.2	11.5
Fair value per share in EUR	15.4	5.7%	8.0	8.2	8.5	8.7	9.0	9.2	9.5
		Terminal growth rate							
		WACC	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%
Cost of equity	7.2%	4.5%	21.3	22.5	23.8	25.2	26.7	28.4	30.2
Pre-tax cost of debt	3.0%	4.7%	18.1	19.1	20.3	21.5	22.7	24.1	25.6
Tax rate	13.5%	4.9%	15.4	16.2	17.2	18.2	19.3	20.5	21.7
After-tax cost of debt	2.6%	5.1%	12.9	13.7	14.5	15.4	16.3	17.3	18.4
Share of equity capital	45.0%	5.3%	10.8	11.4	12.1	12.9	13.7	14.5	15.4
Share of debt capital	55.0%	5.5%	8.8	9.4	10.0	10.7	11.4	12.1	12.9
WACC	5.1%	5.7%	7.1	7.6	8.1	8.7	9.3	10.0	10.6

*Please note our model runs through 2038 and we have only shown the abbreviated version for formatting purposes; net debt includes hybrid notes for DCF purposes



INCOME STATEMENT

All figures in EURm	2020	2021	2022	2023	2024E	2025E
Net rent	372	375	396	411	418	433
Rental and operating income	535	525	583	608	597	618
Property revaluations & capital gains	343	695	118	-890	-318	135
Result from equity-accounted investees	4	4	0	0	0	0
Property expenses	-226	-218	-266	-279	-253	-260
Cost of buildings sold	0	0	0	0	0	0
Administration expenses	-11	-11	-11	-11	-11	-11
Depreciation & amortisation	-5	-8	-10	-9	-9	-9
Operating income (EBIT)	640	986	413	-582	7	473
Finance expenses	-53	-46	-47	-57	-60	-73
Other financial results	-46	-149	-137	-86	0	0
Pre-tax income (EBT)	542	791	229	-724	-53	400
Current tax	-31	-39	-39	-41	-42	-44
Deferred tax	-61	-135	-11	127	41	-18
Tax result	-93	-174	-50	86	-1	-61
Minority interests	-54	-69	-25	124	24	-152
Hybrid note investors	-33	-25	-25	-34	-42	-42
Net income	362	524	129	-548	-72	144
Basic EPS (€)	2.13	3.12	0.77	-3.18	-0.42	0.84
AEBITDA	300	299	308	320	336	349
Ratios						
AEBITDA margin (% of net rent)	80.5%	79.7%	77.8%	77.7%	80.3%	80.6%
Tax rate	10.5%	13.1%	12.7%	-12.8%	12.5%	12.6%
Expenses (% of net rent)						
Property expenses	60.8%	58.2%	67.2%	67.8%	60.4%	60.1%
Administration expenses	2.9%	3.0%	2.7%	2.7%	2.5%	2.5%
Y-Y Growth						
Rental and operating income	-4.4%	-2.0%	11.0%	4.3%	-1.7%	3.5%
Total revenues	-4.4%	-2.0%	11.0%	4.3%	-1.7%	3.5%
Operating income	-7.6%	54.0%	-58.1%	n.m.	n.m.	6620.4%
Adjusted EBITDA	0.7%	-0.4%	3.2%	3.7%	5.0%	3.9%
Net income/ loss	-11.0%	44.5%	-75.3%	n.m.	n.m.	n.m.
Funds from Operations (FFO)						
Operating profit	640	986	413	-582	7	473
Depreciation and amortisation	5	8	10	9	9	9
EBITDA	645	994	423	-572	16	482
Property revaluations & capital gains	-343	-695	-118	890	318	-135
Others	-2	-1	3	2	2	2
Adjusted EBITDA	300	299	308	320	336	349
Financial expense	-53	-46	-47	-57	-60	-73
Tax	-31	-39	-39	-41	-42	-44
Minority & JV contributions	-1	-2	-5	-4	-5	-5
FFO 1 (before perpetuals)	215	211	217	218	229	227
Perpetual note adjustment	-33	-25	-25	-34	-42	-42
FFO 1	182	186	192	184	187	185



BALANCE SHEET

All figures in EURm	2020	2021	2022	2023	2024E	2025E
Current assets, total	2,264	1,679	1,134	1,841	2,135	1,942
Cash and cash equivalents	1,412	895	325	1,129	1,516	1,309
Traded securities at fair value though P&L	286	218	112	125	126	127
Trade and other receivables	395	452	353	391	393	406
Inventories - Trading property	16	0	0	0	0	0
Assets held for sale	155	114	344	196	100	100
Non-current assets, total	8,602	9,883	9,997	9,078	8,678	9,059
Equipment and intangible assets	27	70	77	64	70	77
Investment property	8,043	9,364	9,550	8,650	8,226	8,579
Equity accounted investees	108	0	0	0	0	0
Other LT assets	373	397	316	298	310	322
Deferred tax assets	51	51	54	66	73	80
Total assets	10,866	11,562	11,131	10,918	10,813	11,001
Current liabilities, total	427	773	309	654	605	921
Short-term debt	147	455	5	299	270	572
Trade and other payables	209	216	225	254	228	235
Other current liabilities	71	103	79	101	107	114
Long-term liabilities, total	4,884	4,986	4,908	5,034	5,106	4,821
Long-term debt	427	353	319	863	950	1,200
Convertible and straight bonds	3,639	3,642	3,612	3,271	3,286	2,724
Deferred taxes	634	760	789	662	621	638
Other LT liabilities	183	231	189	239	249	259
Minority interests	535	615	666	516	492	644
Shareholders' equity	5,020	5,188	5,249	4,714	4,611	4,615
Total consolidated equity and debt	10,866	11,562	11,131	10,918	10,813	11,001
Ratios						
EPRA NTA* (€m)	4,566	5,020	4,656	4,014	3,910	3,929
EPRA NTAPS* (€)	26.5	30.4	27.0	23.2	22.6	22.8
Net debt (€m)	2,521	3,342	3,506	3,202	2,864	3,061
Net debt / equity (x)	0.5	0.6	0.7	0.7	0.6	0.7
Net debt / EBITDA (x)	8.4	11.2	11.4	10.0	8.5	8.8
Interest cover (x)	5.7	6.4	6.6	5.6	5.6	4.8
Loan-to-value (LTV)	31%	36%	36%	37%	36%	37%
Equity ratio	51%	50%	53%	48%	47%	48%
Return on equity (ROE)	8.1%	10.6%	3.0%	-12.2%	-1.0%	6.4%

* updated to exclude RETT



CASH FLOW STATEMENT

All figures in EURm	2020	2021	2022	2023	2024E	2025E
Net income	449	617	179	-638	-54	338
Depreciation and amortisation	5	8	10	9	9	9
Profit from equity accounted investees	-4	-4	0	0	0	0
Change in fair value of investment properties	-343	-695	-118	890	318	-135
Net finance expenses	98	195	184	143	60	73
Tax result	93	174	50	-86	1	61
Others	2	3	3	2	0	0
Operating cash flow	300	299	308	320	334	347
Change in working capital	-29	-45	-61	-38	-18	3
Tax paid	-28	-37	-31	-32	-42	-44
Net cash flow from operating activities	242	217	216	249	274	306
Investment in fixed/intangible assets	-7	-8	-5	-3	-15	-16
Net property investments / disposals	-492	-465	-242	51	202	-219
Acquisition of subsidiaries	547	333	-4	0	0	0
Proceeds from investments in financial assets	-439	-58	82	99	-13	-14
Cash flow from investing	-392	-198	-168	148	173	-249
Debt financing, net	559	-71	-486	496	74	-10
Equity financing, net	0	17	0	0	0	0
Share buyback	0	-272	0	0	0	0
Dividend paid	-71	-54	-56	0	0	-140
Other financing activities	214	-109	-28	-40	-74	-42
Net paid financing expenses	-51	-50	-47	-49	-60	-73
Cash flow from financing	651	-537	-618	407	-60	-265
Fx effects	-3	2	-1	0	0	0
Net cash flows	498	-517	-571	804	387	-208
Cash, start of the year	914	1,412	895	325	1,129	1,516
Cash, end of the year	1,412	895	325	1,129	1,516	1,309
AEBITDA / share (€)	1.74	1.69	1.75	1.81	1.90	1.98
FFO 1	182	186	192	184	187	185
FFOPS 1 (€)	1.07	1.11	1.14	1.07	1.08	1.07
Y-Y Growth						
Operating cash flow	-2.9%	-10.4%	-0.4%	15.4%	10.0%	11.5%
Adjusted EBITDA / share	-1.6%	-2.8%	3.2%	3.7%	5.0%	3.9%
FFO 1	1.8%	2.3%	3.2%	-4.3%	1.5%	-0.9%
FFOPS 1	0.3%	3.6%	2.8%	-6.8%	1.4%	-0.9%

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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.

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.

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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...55	↓	↓	↓	↓
56	17 August 2023	€7.32	Buy	€12.80
57	16 November 2023	€9.11	Buy	€12.60
58	18 March 2024	€8.98	Buy	€12.50
59	12 April 2024	€10.35	Buy	€12.50
60	15 April 2024	€10.64	Buy	€12.90
61	17 May 2024	€11.56	Buy	€13.70
62	15 August 2024	€11.70	Buy	€14.40
63	24 September 2024	€12.64	Buy	€15.10
64	Today	€11.96	Buy	€15.40

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

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