

GRAND CITY Properties S.A.

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

Q1/19
 Results

RATING
BUY

PRICE TARGET
€ 28.00

Return Potential 23.7%
 Risk Rating Medium

POSITIVE FUNDAMENTALS DRIVING SOLID GROWTH

First quarter reporting featured a solid operational performance with all headline figures showing mid single digit growth. Net rent climbed 4.4% Y/Y, thanks to the revisionary potential of the portfolio, which resulted in 3.9% like-for-like (LFL) total net rent growth. GCP disposed of €124m in non-core and mature assets in Q1 as part of cash recycling. Management confirmed full year guidance of FFOPS 1 (€1.26 - €127). We look for the good operational trajectory to continue to deliver solid results in the coming quarters as the company optimises its German properties and grows its London portfolio. Our rating remains Buy with a €28 price target.

It's easy to see the positives Subsequent our note of 7 May on the company's fundamentals, Grand City shares have performed well (+6.6%). This followed a Q1 sector downturn on bad sentiment by overblown expropriation worries. We believe investors are again focusing on GCP's good fundamentals, and Q1 results confirm the company's operational strengths with both NAV and FFO 1 rising Q/Q and on an annualised basis. LFL rental income climbed to 3.9% in Q1 (2018: 3.5%), while the portfolio value also edged 4.5% higher to €1,314 / m² (2018: €1,257 / m²). FFOPS 1 grew 14% Q/Q to €0.32 and NAVPS climbed 4% in the first three months. The company is tracking well towards our full year targets (FFOPS 1: +6.4%; NAVPS: +10% Y/Y). We continue to regard Grand City as a good investment that combines the stability of the German residential sector with attractive dividend and FFO 1 yields.

London is suddenly a portfolio stronghold While many investors regard everything UK as off-limits due to Brexit, Grand City has somewhat quietly built up a sizeable London portfolio (€0.5bn). This now accounts for 11% of GCP properties (Q1/18: 2%). Management again raised its London target to 15% of the overall portfolio (old: 12%) and noted on the conference call that the overall €300m acquisition pipeline contains a €100m - €200m London component, so it is quite possible the 15% target will be met this year. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018	2019E	2020E
Rental income (€m)	333.50	435.67	494.89	544.98	596.96	633.62
Y/Y growth	53.8%	30.6%	13.6%	10.1%	9.5%	6.1%
Adj. EBITDA (€m)	177.27	224.73	247.98	275.53	298.18	315.86
Net income ² (€m)	343.9	542.5	534.6	488.6	414.8	416.3
EPS (diluted) (€)	2.35	3.25	3.06	2.76	2.33	2.34
EPRA NAV ¹ (€m)	2402.09	3208.45	3993.06	4783.07	5170.47	5533.10
DPS (€)	0.25	0.68	0.73	0.77	0.83	0.88
FFO 1 (€m)	128.04	160.12	178.01	197.85	211.95	226.82
FFOPS 1 (€)	1.01	1.05	1.12	1.19	1.27	1.36
Liquid assets (€m)	388.93	630.27	401.48	765.04	776.49	674.44

¹ including perpetual notes ² after minority interests 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 20 May 2019

Closing Price	€ 22.64
Shares outstanding	166.72m
Market Capitalisation	€ 3774.54m
52-week Range	€ 18.62 / 24.16
Avg. Volume (12 Months)	227,880

Multiples	2018	2019E	2020E
P/FFO 1	19.0	17.8	16.6
P/EPRA NAV	0.8	0.7	0.7
FFO 1 Yield	5.3	5.6	6.0
Div. Yield	3.4%	3.6%	3.9%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2019

Liquid Assets	€ 565.00m
Current Assets	€ 3,241.00m
EPRA NAV ¹	€ 4,918.00m
Total Assets	€ 8,990.00m
Current Liabilities	€ 358.00m
Total Equity	€ 4744.00m

SHAREHOLDERS

Edolaxia Ltd.	38.7%
Free Float	61.3%



GCP now controls some 2,000 flats (800 of which are in the pre-letting and late snagging stages) in the heart of the British capital. We believe this stable of apartments offer high reward potential, given that the city perpetually features rock bottom vacancy rates (<1.8%).

Diversification into property development? Management also provided more colour on the options under review for the €240m in German development rights held in the portfolio: (1) Sell the land rights, (2) Build & Sell, or (3) Build & Hold. This is the first time we recall management discussing the latter two options in any detail.

The two plots are located near the Volkspark Prenzlauer Berg in Berlin's Lichtenberg borough, which is flourishing against the background of the overall upswing in the German capital. Management now consider development economically attractive and see rental income potential of €16m p.a. vs €240m in development cost for a prospective 6.5% NRI yield.

The GCP portfolio is predominantly filled with affordable housing units. Should management opt for a Build & Hold strategy, the company will make its initial foray into property development and also step up into the luxury apartment class. In our view, even a one-off venture into project development is good optics for GCP at a time when Germany's sputtering supply of new housing is making regular headlines.

While the development options look quite attractive, a rights sale post-permitting would certainly result in a handsome pay-off. We do not expect a final decision by the end of the current year.

Q1 EXTENDS GOOD OPERATING TRAJECTORY

Both the top line and earnings showed solid performances led by a 7% Y/Y rise in adjusted EBITDA. This was spurred by a continued strong like-for-like (LFL) performance. As of Q1, GCP realised total LFL net rental growth of 3.9% comprising 0.3% occupancy increases and 3.6% in-place rent. The latter contains 1.5% indexation, 1.5% re-letting and 0.6% modernisation increases.

Table 1: First quarter results vs estimates

in €m	Q1/19	Q1/19E	Variance	Q1/18	Variance
Rental income	139	140	-0.6%	132	5.1%
Net rent	94	93	0.9%	90	4.4%
Adjusted EBITDA	73	71	2.3%	68	7.1%
<i>margin</i>	52.2%	50.7%	-	51.2%	-
FFO 1	53	50	5.2%	50	6.3%
FFOPS 1 (€)	0.32	0.30	5.2%	0.30	6.7%

Source: First Berlin Equity Research; Grand City Properties



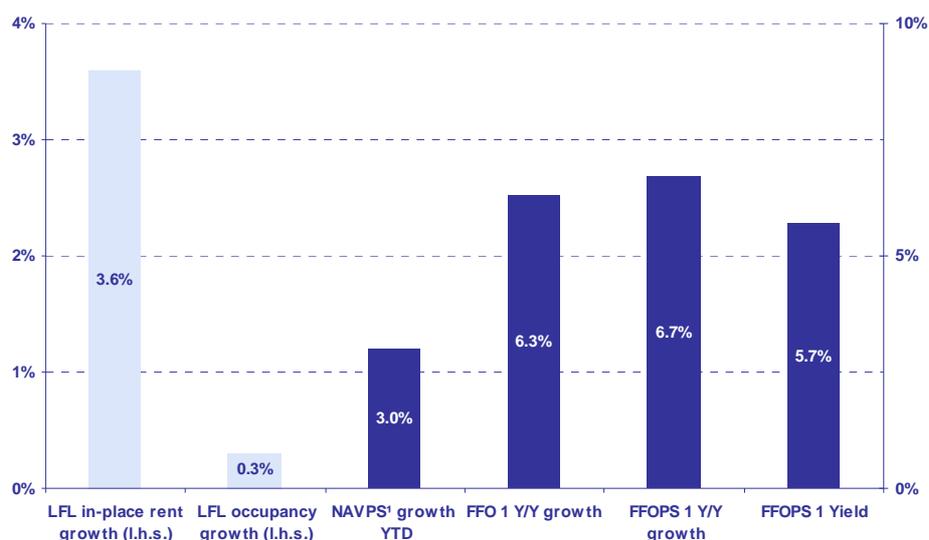
FFO 1 topped our estimate and climbed 6% Y/Y to €53m in Q1/18 equating to FFOPS 1 of €0.32 (+7%). The capital gains, property revaluations and other income line item kept pace with the prior year and totalled €120m for the quarter (Q1/17: €118m). Adjusted EBITDA, which reflects recurring operational profit excluding capital gains and revaluation effects, rose 7% Y/Y to €73m. The company is thus tracking well towards guidance shown below

Table 1: 3 month KPIs vs 2019 guidance

	Unit	Q1 annualised	2019 Guidance	2019E
FFO 1	€m	210	211 - 213	212
FFOPS 1	€	1.28	1.26 - 1.27	1.27
DPS	€	0.83	0.82 - 0.83	0.83
LFL net rent growth	%	3.9	> 3.5	3.5
LTV	%	35	< 45	34

Source: First Berlin Equity Research; Grand City Properties

Figure 1: Operating performance as of 31 March



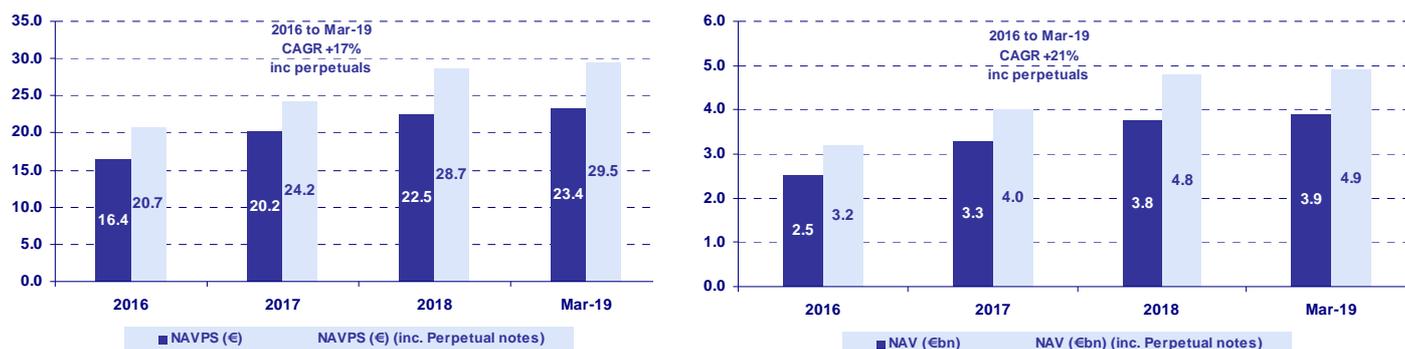
includes perpetual notes,

Source: First Berlin Equity Research; Grand City Properties



As of 31 March, EPRA NAV totalled €3.9bn (€23.4 / share) compared to €3.8bn at year end 2017 (€22.5 / share, +4%). NAV growth owes predominantly to the strong net profit of €425m recorded for the three month period. Including the perpetual notes, which are classified as equity under IFRS, this KPI stood at €4.9bn or €29.5 / share (+3%).

Table 2: EPRA NAV developments



Source: First Berlin Equity Research; Grand City Properties

Table 2: Financial highlights

in €m	Q1/19	2018	Variance
Cash & liquid assets	565	760	-26%
Investment property ¹	7,495	7,244	3%
Total equity	4,744	4,667	2%
EPRA NAV incl. hybrid notes	4,918	4,783	3%
EPRA NAV	3,904	3,753	4%
Interest bearing debt	654	871	-25%
Straight bonds	2,314	2,177	6%
Convertible bond	273	272	0%
Loan-to-Value (LTV)	35%	34%	-
Equity ratio	53%	53%	-

¹ including inventories-trading property

Source: First Berlin Equity Research; Grand City Properties

The debt structure continues to feature an LTV of 35%. Coverage ratios were solid with a debt service coverage ratio (DSCR) and an interest coverage ratio (ICR) of 5.2x and 6.2x respectively at the end of Q1. The debt structure carries an 8.7 year maturity (YE18: 8.2) with a 1.5% average cost of debt (YE18: 1.6%), while the financing mix has shifted away from bank towards corporate debt. We also note there are no significant (>€0.5bn) maturities until 2025 in the debt portfolio. Management confirmed financial firepower of some €1bn to go alongside the €300m pipeline, while keeping the LTV below 45%.



ECONOMIC PROFIT MODEL

Q1 results confirm our positive views on the company. Reversionary upside of 28% should allow the residential landlord to grow cash earnings and reward investors with attractive FFO 1 and dividend yields for years to come. We maintain our Buy rating and €28 PT.

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	298	316	333	350	354
(+) Revaluations	342	322	312	260	50
(+) Investment income	2	2	2	2	2
(-) Tax expense	96	96	97	92	61
NOPAT	546	543	550	520	345
Total assets	9,513	9,962	10,233	10,975	10,975
(-) Current liabilities	307	327	339	355	355
(+) Current financial debt	22	22	22	22	22
(-) Cash	615	513	253	480	480
(+) Deferred taxes	541	588	635	681	681
Capital employed (CE)	9,153	9,732	10,298	10,842	10,842
Average CE	8,806	9,443	10,015	10,570	10,842
ROCE	6.2%	5.8%	5.5%	4.9%	3.2%
WACC	3.1%	3.1%	3.1%	3.1%	3.1%
ROCE-WACC	3.1%	2.7%	2.4%	1.8%	0.1%
Economic Profit	274	252	241	194	10
NPV	274	240	223	174	445
Fair value calculation					
Total return	1,356				
(+) EPRA NAV (2018)	3,753				
(-) Dividend to be paid	129				
Equity value	4,980				
Diluted SO ('000)	178				
Fair value per share (€)	28.00				
Valuation metrics					
Price target (€)	28.00	28.00	28.00	28.00	
Share price (€)	22.64	22.64	22.64	22.64	
Return potential	23.7%	23.7%	23.7%	23.7%	
Dividend yield	3.6%	3.9%	4.2%	4.3%	
Total return potential	27.3%	27.6%	27.9%	28.0%	
FFOPS 1 yield	5.3%	5.6%	6.0%	6.5%	
DPS (€)	0.83	0.88	0.95	0.94	



INCOME STATEMENT

All figures in EURm	2015	2016	2017	2018	2019E	2020E
Net rent	220	285	328	364	388	412
Rental and operating income	333	436	495	545	597	634
Revenue from sale of buildings	0	7	2	0	0	0
Revenue	333	443	497	545	597	634
Capital gains, property revaluations & other	311	598	616	507	342	322
Result from equity-accounted investees	0	1	6	1	2	2
Property expenses	-152	-204	-239	-263	-288	-305
Cost of buildings sold	0	-5	-1	0	0	0
Administration expenses	-7	-10	-11	-11	-13	-14
Operating income (EBIT)	486	823	868	780	639	637
Finance expenses	-26	-36	-40	-46	-52	-53
Other financial results	0	-11	-43	-36	0	0
Pre-tax income (EBT)	460	775	786	698	588	584
Tax and deferred tax expenses	-66	-122	-146	-115	-90	-86
Minority interests	-35	-88	-80	-64	-50	-50
Hybrid note investors	-15	-23	-24	-30	-33	-33
Net income	344	542	535	489	415	416
Basic EPS (€)	2.71	3.56	3.35	2.95	2.49	2.50
Diluted EPS (€)	2.35	3.25	3.06	2.76	2.33	2.34
Adjusted EBITDA	177	225	248	276	298	316
Ratios						
Adjusted EBITDA margin	53.2%	51.6%	50.1%	50.6%	50.0%	49.9%
Tax rate	12.8%	11.9%	-11.3%	-10.8%	10.8%	10.8%
Expenses as % of revenues						
Property expenses	45.4%	46.8%	48.3%	48.2%	48.2%	48.2%
Administration expenses	2.1%	2.2%	2.2%	1.9%	2.3%	2.3%
Y-Y Growth						
Rental and operating income	53.8%	30.6%	13.6%	10.1%	9.5%	6.1%
Total revenues	44.1%	32.7%	12.2%	9.7%	9.5%	6.1%
Operating income	41.9%	69.3%	5.5%	-10.2%	-18.0%	-0.4%
Adjusted EBITDA	58.3%	26.8%	10.3%	11.1%	8.2%	5.9%
Net income/ loss	67.3%	57.7%	-1.5%	-8.6%	-15.1%	0.4%
Funds from Operations (FFO)						
Operating profit	486	823	868	780	639	637
Depreciation and amortisation	2	2	2	3	2	2
EBITDA	488	825	871	782	642	639
Capital gains, property revaluations and other	-311	-598	-616	-507	-342	-322
Result from disposal of trading properties	0	-2	0	0	0	0
Others	1	0	-6	0	-2	-2
Adjusted EBITDA	177	225	248	276	298	316
Financial expense	-26	-36	-40	-46	-52	-53
Tax	-23	-27	-28	-30	-32	-34
Minorities	-1	-1	-2	-2	-2	-2
FFO 1	128	160	178	198	212	227
CapEx	-34	-56	-67	-75	-83	-89
AFFO	94	104	111	122	129	138



BALANCE SHEET

All figures in EURm	2015	2016	2017	2018	2019E	2020E
Assets						
Current assets, total	627	1,028	796	1,238	1,289	1,210
Cash and cash equivalents	236	449	312	603	615	513
Traded securities at fair value though P&L	153	181	89	162	162	162
Trade and other receivables	226	220	260	319	360	382
Inventories - Trading property	12	27	12	17	16	17
Assets held for sale	0	150	123	136	136	136
Non-current assets, total	4,062	5,126	6,712	7,623	8,224	8,752
Equipment and intangible assets	9	16	20	24	26	29
Investment property	3,846	4,823	6,414	7,282	7,861	8,364
Equity accounted investees	0	118	37	26	28	29
Other LT assets	195	155	214	254	269	285
Deferred tax assets	11	15	28	37	40	44
Total assets	4,689	6,154	7,508	8,861	9,513	9,962
Shareholders' equity & debt						
Current liabilities, total	277	338	371	306	342	362
Short-term debt	55	29	62	22	22	22
Trade and other payables	190	252	267	242	276	293
Other current liabilities	32	58	42	42	45	47
Long-term liabilities, total	2,239	2,750	3,288	3,887	4,135	4,203
Long-term debt	792	897	919	846	884	884
Convertible and straight bonds	1,168	1,478	1,810	2,450	2,598	2,612
Deferred taxes	239	326	500	523	581	633
Other LT liabilities	40	50	59	69	72	75
Minority interests	142	197	364	409	459	509
Shareholders' equity	2,030	2,868	3,485	4,258	4,576	4,888
Total consolidated equity and debt	4,689	6,154	7,508	8,861	9,513	9,962
Ratios						
Current ratio (x)	2.26	3.04	2.15	4.04	3.77	3.34
Equity ratio	46.3%	49.8%	51.3%	52.7%	52.9%	54.2%
EPRA NAV ¹ (€m)	2,402	3,208	3,993	4,783	5,170	5,533
Net debt (€m)	1,626	1,783	2,393	2,560	2,727	2,843
Net debt / equity	0.8	0.6	0.7	0.6	0.6	0.6
Net debt / EBITDA (x)	9.2	7.9	9.7	9.3	9.1	9.0
Interest cover (x)	6.9	6.2	6.2	6.0	5.7	6.0
Loan-to-value (LTV)	41.9%	34.9%	36.4%	34.3%	34.0%	33.3%
Return on equity (ROE)	18.1%	21.3%	16.6%	12.5%	9.9%	9.2%

¹ including perpetual notes



CASH FLOW STATEMENT

All figures in EURm	2015	2016	2017	2018	2019E	2020E
Net income	394	653	639	583	497	499
Depreciation and amortisation	2	2	2	3	2	2
Profit from equity accounted investees	0	-1	-6	-1	-2	-2
Change in fair value of investment properties	-311	-598	-616	-507	-342	-322
Net finance expenses	26	47	83	82	52	53
Tax result	66	122	146	115	90	86
Others	1	1	1	1	0	0
Operating cash flow	177	227	248	276	298	316
Inventories - trading properties	-1	2	-6	-6	1	-1
Trade & other receivables	-25	-6	-39	-38	-40	-22
Trade & other payables	20	3	19	18	34	17
Provisions for other liabilities	5	-6	3	3	2	2
Tax paid	-19	-19	-23	-28	-32	-34
Net cash flow from operating activities	157	201	202	225	262	277
Investment in fixed/intangible assets	-4	-3	-6	-6	-5	-5
Investments & acquisitions of investment property	-406	-476	-374	-501	-236	-182
Acquisition of subsidiaries	-446	-111	-324	-112	0	0
Proceeds from investments in financial assets	-359	33	95	-100	-15	-16
Cash flow from investing	-1,215	-557	-608	-718	-256	-202
Debt financing, net	440	487	597	916	187	14
Equity financing, net	640	171	176	312	0	0
Other financing activities	-24	-44	-457	-385	-129	-138
Net paid financing expenses	-33	-46	-47	-56	-52	-53
Cash flow from financing	1,023	569	269	786	6	-177
Net cash flows	-34	213	-137	291	11	-102
Cash, start of the year	270	236	449	312	603	615
Cash, end of the year	236	449	312	603	615	513
Adjusted EBITDA / share (€)	1.27	1.46	1.50	1.65	1.79	1.89
FFO I	128	160	178	198	212	227
FFOPS I (€)	1.01	1.05	1.12	1.19	1.27	1.36
Y-Y Growth						
Operating cash flow	38.3%	27.8%	0.5%	11.0%	16.6%	5.9%
Adjusted EBITDA / share	34.5%	15.0%	3.0%	9.8%	8.2%	5.9%
FFO I	68.2%	25.1%	11.2%	11.1%	7.1%	7.0%
FFOPS I	52.8%	3.9%	6.5%	7.1%	6.4%	7.0%

FIRST BERLIN 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...28	↓	↓	↓	↓
29	21 November 2018	€20.66	Buy	€27.00
30	21 March 2019	€21.92	Buy	€28.00
31	7 May 2019	€21.22	Buy	€28.00
32	Today	€22.64	Buy	€28.00

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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.

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