

GRAND CITY Properties S.A.

Luxembourg / Financial Services

Frankfurt

Bloomberg: GYC GR

ISIN: LU0775917882

Update

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 25.50**

40.4%

Medium

CAPITAL INCREASE SUPPORTS RECENT UNIT ACQUISITION

Grand City Properties (GCP) has announced the successful completion of a capital increase for €198m in gross proceeds. The company recently announced the acquisition of some 3,000 units in its latest presentation. The new units boost the overall portfolio to 87k. Management also wants to maintain a solid equity position and balance sheet metrics with the proceeds. The new units feature a 12% vacancy rate and an in-place rent of €7/m². Our price target is now €25.10 (previously: €25.50) after adjusting for the new equity and shares. We maintain our Buy rating.

External growth to continue on a selective basis On the first quarter conference call, management again noted the tight market conditions, which will likely result in a moderate external growth pace over the near term. That said, the company recently acquired an additional 3,000 units for €300m boosting its portfolio to 87k. Including the new units the overall portfolio now features in-place rent of €5.50/m² and an EPRA vacancy of 7.5%. The deal increases the monthly annualised rental income run rate for August to €498m (previously: €462m) and the monthly annualised FFO I run rate to €177m from €168m. The monthly annualised market potential is now €623m (previously: €584m) compared to the current €498m run rate—upside of some 25%.

Private placement of 11m new shares GCP placed 11m new shares at €18 per share in a private placement. Thus, the company's share capital increases to €16,478,888 (previously: €15,378,888). We have adjusted our EPS forecasts to account for the slight dilution and now expect diluted EPS of €2.07 for 2017 (previously: €2.20) and €2.30 for 2018 (previously: €2.44). We have adjusted our model to account for the new equity and shares and maintain our €25.10 price target. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Rental income (€m)	216.84	333.50	442.67 ¹	478.35	520.48	558.14
Y/Y growth	117.7%	53.8%	32.7%	8.1%	8.8%	7.2%
Adj. EBITDA (€m)	112.01	177.27	224.73	245.94	268.41	287.87
Net income	243.83	393.57	653.11	424.86	471.39	460.21
EPS (diluted) (€)	1.52	2.35	3.25	2.07	2.30	2.24
EPRA NAV (€m)	1348.65	2402.09	3208.45	3780.98	4231.75	4668.69
DPS (€)	0.21	0.20	0.68	0.67	0.74	0.85
FFO I (€m)	76.11	128.04	160.12	172.62	193.69	210.40
FFOPS I	66.00	89.00	104.12	103.70	114.30	121.58
Liquid assets (€m)	272.30	388.93	630.27	769.09	784.86	814.89

¹ includes €7m from trading property disposal

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, which would affect unhedged financial debt, unfavourable macroeconomic development, and departure of key personnel.

COMPANY PROFILE

Grand City Properties is a specialist real estate firm focused on investing in and managing value-add opportunities in the German real estate market. GCP's portfolio is primarily located in densely populated areas. 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 21 Jun 2017

Closing Price	€ 18.16
Shares outstanding	164.79m
Market Capitalisation	€ 2991.93m
52-week Range	€ 14.73 / 20.25
Avg. Volume (12 Months)	230,381

Multiples	2016	2017E	2018E
P/FFO I	17.4	17.5	15.9
P/EPRA NAV	0.9	0.8	0.7
FFO I/Yield	5.7%	5.7%	6.3%
Div. Yield	3.7%	3.7%	4.1%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2017

Liquid Assets	€ 481.40m
Current Assets	€ 905.40m
Total Assets	€ 6,249.60m
Current Liabilities	€ 308.60m
EPRA NAV ¹	€ 3,299.00m
Total Equity	€ 3154.50m

¹ including perpetual notes

SHAREHOLDERS

Edolaxia Ltd.	36.1%
FMR LLC	4.6%
Merrill Lynch Intl	2.6%
Odey Asset Mgmt	2.3%
Free Float	54.5%



EPRA NAV VALUATION

All figures in EUR '000	2017E	2018E	2019E
Shareholders' equity	3,395,985	3,794,489	4,184,410
Consolidated NAV	3,626,640	4,062,856	4,489,593
NAV per share (€)	21.79	23.98	25.94
Deferred taxes	373,459	425,724	472,747
Derivative financial instruments	11,536	11,536	11,536
EPRA NAV	3,780,979	4,231,750	4,668,693
EPRA NAV per share (€)	22.71	24.97	26.98
FFO	172,615	193,692	210,404
Revaluation results	299,916	330,169	297,045
New Equity	198,000	-	-
Total return	670,531	523,861	507,449

EPRA NAV	3,780,979	4,231,750	4,668,693
Return on NAV	20.9%	13.9%	10.9%
Cost of equity	5.0%	5.0%	5.0%
Spread (percentage points)	15.9%	8.9%	5.9%

Value creation	602,949	376,760	276,255
NPV	593,543	359,904	256,084
Dividends paid	104,078	112,200	125,900
Present value of dividends paid	102,454	107,180	116,707

Fair value calculation			
PV of total value created	1,209,531		
NAV (FY16)	3,065,064		
Equity value	4,274,595		
PV of dividends	326,342		
Fair value	4,600,936		
Number of shares (fully diluted)	182,988		
Fair value per share (€)	25.10		



INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E
Rental and operating income	216,837	333,497	435,668	478,350	520,482
Revenue from sale of buildings	14,675	0	7,002	0	0
Revenue	231,512	333,497	442,670	478,350	520,482
Capital gains, property revaluations & other	230,969	311,131	598,280	299,916	330,169
Result from equity-accounted investees	94	0	541	0	0
Property expenses	-100,175	-151,552	-204,108	-220,041	-239,422
Cost of buildings sold	-14,425	0	-4,971	0	0
Administration expenses	-5,650	-7,153	-9,550	-14,280	-14,733
Operating income (EBIT)	342,325	485,923	822,862	543,945	596,496
Finance expenses	-22,040	-25,830	-36,319	-37,174	-35,261
Other financial results	-32,664	-73	-11,121	0	0
Pre-tax income (EBT)	287,621	460,020	775,422	506,772	561,235
Tax and deferred tax expenses	-43,787	-66,450	-122,317	-81,909	-89,843
Minority interests	-38,259	-35,120	-88,013	-33,989	-37,711
Hybrid note investors	0	-14,517	-20,272	-15,241	-16,911
Net income	205,575	343,933	544,820	375,632	416,770
Basic EPS (in €)	1.73	2.71	3.56	2.40	2.61
Diluted EPS (in €)	1.52	2.35	3.25	2.19	2.43
Adjusted EBITDA	112,009	177,274	224,729	245,942	268,409
Ratios					
Adjusted EBITDA margin on rental income	51.7%	53.2%	51.6%	51.4%	51.6%
Tax rate	12.4%	12.8%	11.9%	14.0%	14.0%
Expenses as % of revenues					
Property expenses	46.2%	45.4%	46.8%	46.0%	46.0%
Administration expenses	2.6%	2.1%	2.2%	3.0%	2.8%
Y-Y Growth					
Rental and operating income	117.6%	53.8%	30.6%	9.8%	8.8%
Total revenues	36.5%	44.1%	32.7%	8.1%	8.8%
Operating income	11.9%	41.9%	69.3%	-33.9%	9.7%
Adjusted EBITDA	106.5%	58.3%	26.8%	9.4%	9.1%
Net income/ loss	-9.1%	67.3%	58.4%	-31.1%	11.0%
Funds from Operations (FFO)					
Operating profit	342,325	485,923	822,862	543,945	596,496
Depreciation and amortisation	903	1,729	1,695	1,913	2,082
EBITDA	343,228	487,652	824,557	545,859	598,578
Capital gains, property revaluations and other	-230,969	-311,131	-598,280	-299,916	-330,169
Result from disposal of trading properties	-250	0	-2,031	0	0
Others	0	753	483	0	0
Adjusted EBITDA	112,009	177,274	224,729	245,942	268,409
Financial expense	-22,040	-25,830	-36,319	-37,174	-35,261
Tax	-13,863	-22,776	-26,799	-34,432	-37,577
Minorities	0	-628	-1,491	-1,722	-1,879
FFO I	76,106	128,040	160,120	172,615	193,692



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E
Assets					
Current assets, total	401,815	627,204	1,027,702	1,193,750	1,233,669
Cash and cash equivalents	270,131	236,001	448,873	587,693	603,463
Traded securities at fair value though P&L	2,165	152,924	181,397	181,397	181,397
Trade and other receivables	123,705	226,402	219,668	262,110	285,196
Inventories - Trading property	5,814	11,877	27,270	12,057	13,119
Assets held for sale	0	0	150,494	150,494	150,494
Non-current assets, total	2,227,243	4,061,699	5,126,031	5,631,353	6,169,674
Equipment and intangible assets	7,516	9,493	15,833	17,416	19,158
Investment property	2,179,982	3,845,979	4,768,487	5,260,303	5,784,291
Equity accounted investees	0	0	117,785	117,785	117,785
Other LT assets	28,552	195,390	209,397	219,867	230,860
Deferred tax assets	11,193	10,837	14,529	15,982	17,580
Total assets	2,629,058	4,688,903	6,153,733	6,825,103	7,403,343
Shareholders' equity & debt					
Current liabilities, total	153,266	277,317	338,325	345,571	374,670
Short-term debt	5,792	54,676	29,236	19,851	22,564
Trade and other payables	128,837	190,358	251,503	265,255	288,618
Other current liabilities	18,637	32,283	57,586	60,465	63,489
Long-term liabilities, total	1,434,142	2,239,291	2,750,344	2,852,893	2,965,817
Long-term debt	537,217	792,224	896,577	992,527	1,128,200
Convertible and straight bonds	716,832	1,167,989	1,477,987	1,435,196	1,358,172
Deferred taxes	141,003	239,374	325,982	373,459	425,724
Other LT liabilities	39,090	39,704	49,798	51,711	53,720
Minority interests	90,736	142,260	196,666	230,655	268,366
Shareholders' equity	950,914	2,030,035	2,868,398	3,395,985	3,794,489
Total consolidated equity and debt	2,629,058	4,688,903	6,153,733	6,825,103	7,403,343
Ratios					
Current ratio (x)	2.62	2.26	3.04	3.45	3.29
Equity ratio	39.6%	46.3%	49.8%	53.1%	54.9%
EPRA NAV ('000)	1,348,650	2,402,087	3,208,453	3,780,979	4,231,750
Net debt ('000)	987,545	1,625,964	1,783,493	1,678,484	1,724,077
Financial leverage	103.9%	80.1%	62.2%	49.4%	45.4%
Loan-to-value (LTV)	45.3%	41.9%	34.9%	30.4%	28.5%
Return on equity (ROE)	23.4%	18.1%	21.3%	11.7%	11.6%



CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E
Net income	243,834	393,570	653,105	424,863	471,392
Depreciation and amortisation	903	1,729	1,695	1,913	2,082
Profit from investments in equity accounted investees	-94	0	-541	0	0
Change in fair value of investment properties	-230,968	-311,131	-598,280	-299,916	-330,169
Net finance expenses	54,704	25,903	47,440	37,174	35,261
Tax result	43,787	66,450	122,317	81,909	89,843
Others	171	753	1,024	0	0
Operating cash flow	112,337	177,274	226,760	245,942	268,409
Inventories - trading properties	14,134	-943	2,421	15,213	-1,062
Trade & other receivables	-39,030	-24,825	-5,908	-42,442	-23,086
Trade & other payables	31,359	20,234	2,510	13,752	23,363
Provisions for other liabilities	5,875	4,506	-5,549	3,340	3,434
Tax paid	-10,791	-18,798	-18,941	-34,432	-37,577
Net cash flow from operating activities	113,884	157,448	201,293	201,373	233,481
Investment in fixed/intangible assets	-1,847	-3,680	-3,304	-3,497	-3,824
Investments and acquisitions of investment property	-349,944	-406,475	-476,195	-191,900	-193,819
Acquisition of subsidiaries	-38,561	-445,922	-110,640	0	0
Proceeds from investments in financial assets	62,449	-358,971	32,955	-10,470	-10,993
Cash flow from investing	-327,903	-1,215,048	-557,184	-205,867	-208,636
Debt financing, net	393,143	440,130	487,473	86,565	138,387
Equity financing, net	0	639,939	170,999	198,000	0
Other financing activities	-11,648	-23,735	-43,838	-104,078	-112,200
Net paid financing expenses	-29,887	-32,864	-45,871	-37,174	-35,261
Cash flow from financing	351,608	1,023,470	568,763	143,313	-9,074
Net cash flows	137,589	-34,130	212,872	138,819	15,771
Cash, start of the year	132,542	270,131	236,001	448,873	587,693
Cash, end of the year	270,131	236,001	448,873	587,693	603,463
Adjusted EBITDA/share (in €)	0.94	1.27	1.46	1.57	1.68
FFO I	76,106	128,040	160,120	172,615	193,692
FFO/share (in €)	0.66	0.89	1.04	1.10	1.21
Y-Y Growth					
Operating cash flow	85.5%	38.3%	27.8%	0.0%	15.9%
Adjusted EBITDA/share	32.6%	34.5%	15.0%	7.5%	7.1%
FFO I	99.5%	68.2%	25.1%	7.8%	12.2%

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...17	↓	↓	↓	↓
18	24 January 2017	€16.88	Buy	€25.00
19	23 March 2017	€17.14	Buy	€25.50
20	16 May 2017	€18.87	Buy	€25.50
21	Today	€18.16	Buy	€25.50

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- 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: <http://firstberlin.com/disclaimer-english-link/>

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