

GRAND CITY Properties S.A.

Luxembourg / Financial Services
 Frankfurt
 Bloomberg: GYC GR
 ISIN: LU0775917882

Q1/17
 Results

RATING
BUY

PRICE TARGET
€ 25.50

Return Potential 35.1%
 Risk Rating Medium

HEADLINE FIGURES HIGHER Y/Y; IN LINE WITH GROWTH TARGETS

First quarter results were in line with our forecasts. Headline figures continued to grow with rental income increasing 18% to €119m and FFO I climbing 17% Y/Y. The company also reached a significant milestone with the uplisting of its shares to the Prime Standard of the Frankfurt Stock Exchange. The acquisition pipeline should provide opportunities to selectively acquire properties that provide sufficient value upside, although at a slower pace than the past years. We expect further stable growth this year and reiterate our Buy rating with an unchanged €25.50 price target.

Maintaining disciplined investment approach On yesterday's conference call, management again noted the tight market conditions, which will likely result in a moderate external growth pace over the near term. GCP prefers to pursue a more stable growth scenario rather than buy properties with insufficient value upside according to its strategy. The company has a solid financial structure with an attractive debt portfolio (cost of debt 1.6%), and it has the financial strength and flexibility for acquisitions when attractive opportunities arise. We believe the acquisition pipeline will yield new deals in the coming quarters. Management will also focus on extracting further value from its 84k unit portfolio. This should result in steady rental income and FFO I growth. The Prime Standard uplisting also positions the company to be included in one of the DAX indices in the coming quarters.

Revenue +18% Y/Y to €118m; like-for-like metrics higher The top line result edged our estimate (FBe: €115m). Growth stemmed from portfolio expansion and optimisation of existing properties through rent and occupancy increases. On a like-for-like basis, occupancy growth rose 2.7% and in-place rent climbed 2.1%. As expected, external growth has stabilised in recent months, due to tightening market conditions. The portfolio contains 84k units as of March compared to 78k at the end of Q1/16 and 83k units in December 2016. (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	2.20	2.44	2.39
EPRA NAV (€m)	1348.65	2402.09	3208.45	3582.98	4033.75	4470.69
DPS (€)	0.21	0.20	0.68	0.72	0.79	0.91
FFO I (€m)	76.11	128.04	160.12	172.62	193.69	210.40
FFOPS I	0.66	0.89	1.04	1.11	1.22	1.29
Liquid assets (€ m)	272.30	388.93	630.27	571.09	586.86	616.89

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 (GCP) is a specialist real estate firm focused on investing in and managing value-add opportunities in the German real estate property market. GCP's portfolio is primarily located in densely populated areas. The overarching strategy is to improve its properties through targeted modernisation and intensive tenant management, and thus create value by subsequently raising occupancy and rental levels.

MARKET DATA

As of 15 May 2017

Closing Price	€ 18.87
Shares outstanding	153.79m
Market Capitalisation	€ 2902.02m
52-week Range	€ 14.73 / 20.25
Avg. Volume (12 Months)	226,193

Multiples	2016	2017E	2018E
P/FFO I	18.1	17.0	15.4
P/EPRA NAV	0.9	0.8	0.7
FFO I/Yield	5.5%	5.9%	6.5%
Div. Yield	3.6%	3.8%	4.2%

STOCK OVERVIEW



COMPANY DATA

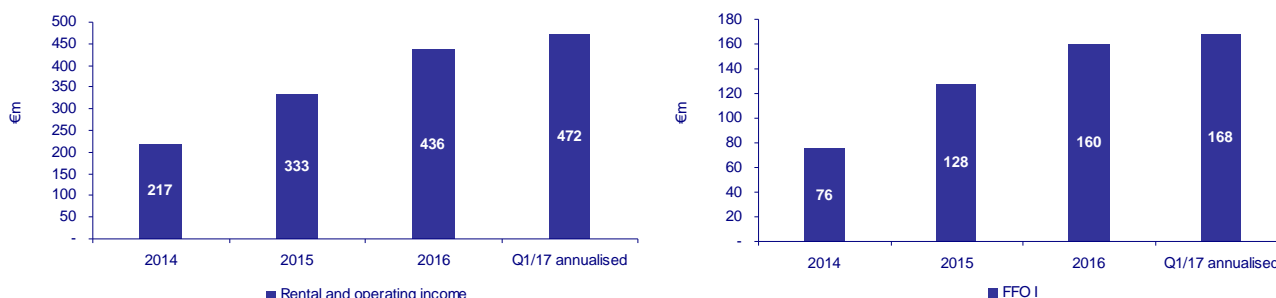
As of 31 Mar 2017

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.	36.0%
FMR LLC	4.6%
Merrill Lynch Intl	2.6%
Odey Asset Mngt	2.3%
Free Float	54.7%

**Figure 1: Rental income and FFO I developments**

Source: First Berlin Equity Research; Company

The capital gains, property revaluations and other income line item totalled €52m in the first three months (Q1/16: €69m). The lion's share of this figure was generated by changes in the fair value of investment properties. Net income amounted to €92m in Q1 vs €90m in the prior year period and equated to diluted EPS of €0.46 (Q1/16: €0.43)

Adjusted EBITDA, which reflects recurring operating profit and excludes non-cash effects, climbed 11% Y/Y in Q1/17 to €59.5m (FY15: €53.4m). This improvement reflects the underlying portfolio growth over the past year as well as the improving operating metrics. We note that the company incurred additional administrative expenses in conjunction with the uplisting, which slightly offset adjusted EBITDA growth compared to the top line expansion. GCP reported a monthly annualised adj. EBITDA run rate of €238m.

Table 1: Results vs estimates

in € '000	Q1/17A	Q1/17E	delta	Q1/16A	delta
Rental income	117,957	115,210	2.4%	100,751	17.1%
Adjusted EBITDA	59,530	58,454	1.8%	53,445	11.4%
Margin	50.5%	50.7%	-	53.0%	-
FFO I	42,014	41,980	0.1%	37,525	12.0%
FFOPS I	0.27	0.27	0.1%	0.25	8.0%

Source: First Berlin Equity Research; Company

FFO I is the market standard for measuring bottom line profits and climbed some 12% in Q1/17 to €42.0m compared to €37.5m in the prior year period. This is in line with the adjusted EBITDA growth and also reflects the excellent financing conditions, which allowed the company to keep financing expenses in check. FFO I per share amounted to €0.27 compared to €0.25 in the prior year. This resulted in an annualised FFO I yield of 5.7%. The monthly annualised FFO I run rate stood at €168m at the end of the period giving us a high degree of confidence in our full year target of €172m assuming moderate external growth.

**Table 2: Financial highlights**

in €'000	Q1/17	2016	Delta
Cash & liquid assets	481,397	631,904	-23.8%
Investment property ¹	4,977,599	4,795,757	3.8%
Total equity	3,154,531	3,065,064	2.9%
EPRA NAV incl. hybrid notes	3,299,079	3,208,453	2.8%
EPRA NAV	2,630,097	2,541,060	3.5%
Interest bearing debt	955,529	937,410	1.9%
Straight bonds	1,052,119	1,050,078	0.2%
Convertible bond (series F)	428,932	427,909	-
Loan-to-Value (LTV)	37%	35%	-
Equity ratio	50%	50%	-

¹ including inventories-trading property

Source: First Berlin Equity Research; Company

Balance sheet metrics stable over three month period GCP reported cash and liquid assets of €481m for the period ended 31 March compared to €632m at the end of 2016, while net debt edged higher to €2.0bn vs €1.8bn at the end of 2016. The debt structure showed an LTV of 37% at the end of the quarter compared to 35% at end 2016. This remains well below the 45% internal limit set by the Management Board. Coverage ratios remained solid with a debt service coverage ratio (DSCR) and an interest coverage ratio (ICR) of 5.0x and 6.2x respectively at the end of Q1. In our view, the ample cash position and attractive debt structure, which features a 1.6% cost of debt and seven year maturity, positions the company well for disciplined growth in a tightening supply environment.

Table 3: Cash flow KPIs

in EUR '000	Q1/17	Q1/16	Delta
Operating cash flow	52,212	47,083	10.9%
Cash flow from investment activities	-93,157	-155,942	-40.3%
Cash flow from financing activities	-29,667	376,556	-
Net cash flow	-70,612	267,697	-

Source: First Berlin Equity Research; Company

The increase in operating cash flow stems from the Y/Y portfolio growth and associated rise in rental and operating income. Cash flow from investing slowed, due to the noted adherence to a disciplined growth strategy focused on only acting on opportunities that harbour sufficient value upside. The variation in cash flow from financing is largely attributable to capital market activities in Q1/16 that included the issuance of Series F convertible bonds for €450m.



EPRA NAV VALUATION

All figures in EUR '000	2017E	2018E	2019E
Shareholder's Equity	3,197,985	3,596,489	3,986,410
Consolidated NAV	3,428,640	3,864,856	4,291,593
NAV per share (€)	22.06	24.39	26.48
Deferred taxes	373,459	425,724	472,747
Derivative financial instruments	11,536	11,536	11,536
EPRA NAV	3,582,979	4,033,750	4,470,693
EPRA NAV per share (€)	23.05	25.46	27.59
FFO	172,615	193,692	210,404
Revaluation results	299,916	330,169	297,045
New Equity	-	-	-
Total return	472,531	523,861	507,449

EPRA NAV	3,582,979	4,033,750	4,470,693
Return on NAV	14.7%	14.6%	11.4%
Cost of equity	5.0%	5.0%	5.0%
Spread (percentage points)	9.8%	9.7%	6.4%

Value creation	350,261	390,016	286,060
NPV	343,720	371,403	264,345
Dividends paid	104,078	112,200	125,900
Present value of dividends paid	102,134	106,845	116,343

Fair value calculation	
PV of total value created	979,468
NAV (FY16)	3,065,064
Equity value	4,044,532
PV of dividends	325,322
Fair value	4,369,855
Number of shares (fully diluted)	171,988
Fair value per share (€)	25.50



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	2.42	2.63
Diluted EPS (in €)	1.52	2.35	3.25	2.20	2.44
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	995,750	1,035,669
Cash and cash equivalents	270,131	236,001	448,873	389,693	405,463
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	6,627,103	7,205,343
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	3,197,985	3,596,489
Total consolidated equity and debt	2,629,058	4,688,903	6,153,733	6,627,103	7,205,343
Ratios					
Current ratio (x)	2.62	2.26	3.04	2.88	2.76
Equity ratio	39.6%	46.3%	49.8%	51.7%	53.6%
EPRA NAV ('000)	1,348,650	2,402,087	3,208,453	3,582,979	4,033,750
Net debt ('000)	987,545	1,625,964	1,783,493	1,876,484	1,922,077
Financial leverage	103.9%	80.1%	62.2%	58.7%	53.4%
Loan-to-value (LTV)	45.3%	41.9%	34.9%	33.9%	31.8%
Return on equity (ROE)	23.4%	18.1%	21.3%	12.4%	12.2%



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	0	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	-54,687	-9,074
Net cash flows	137,589	-34,130	212,872	-59,181	15,771
Cash, start of the year	132,542	270,131	236,001	448,873	389,693
Cash, end of the year	270,131	236,001	448,873	389,693	405,463
Adjusted EBITDA/share (in €)	0.94	1.27	1.46	1.58	1.69
FFO I	76,106	128,040	160,120	172,615	193,692
FFO/share (in €)	0.66	0.89	1.04	1.11	1.22
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%	8.3%	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...16	↓	↓	↓	↓
17	18 November 2016	€15.17	Buy	€25.00
18	24 January 2017	€16.88	Buy	€25.00
19	23 March 2017	€17.14	Buy	€25.50
20	Today	€18.87	Buy	€25.50

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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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:

STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

BUY: An expected favourable price trend of more than 25% percent.

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

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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.

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

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