GRAND CITY Properties S.A.

Luxembourg / Financial Services
Frankfurt
Bloomberg: GYC
ISIN: LU0775917882

Initiation of Coverage

RATING	**BUY**
PRICE TARGET	**€14.30**
Return Potential	**227.2%**
Risk Rating	Medium

BUY LOW - ADD VALUE - SELL HIGH

GRAND CITY Properties ("GCP") is a real estate optimisation company focused on investment opportunities in distressed real estate assets. The company is concentrating on highly populated areas in Germany. By investing in the buildings, lowering property operating costs and increasing rents and occupancy rates GRAND CITY Properties turns these distressed buildings around and holds or sells them afterwards. Following its latest financing activities the company has sufficient liquidity to take advantage of arising investment opportunities. We initiate coverage of GRAND CITY Properties S.A. with a €14.30 price target and a Buy recommendation.

Portfolio focus on residential real estate GRAND CITY Properties currently owns a total of approximately 15,000 units with a total rentable area of 1,020,622m². Roughly 90% of the total floor area is residential floor area.

Opportunistic portfolio strategy According to the company's two-track strategy "buy-build-and-hold" as well as "buy-build-and-sell", successful turnaround projects are held in GRAND CITY Properties' portfolio and generate stable cash flows or they are sold if a potential buyer makes an attractive offer.

Promising growth prospects An increasingly tight market situation for rented properties in Germany is forecast due to the low number of newly built real estate properties. The prospects for selling properties are also intact. Future demand is expected to stay at a high level.

Further investments expected in the near term Due to the company's financial firepower following its financing activities in H2 2012 (pro-forma liquidity estimated at around €79m at the end of FY 2012), we expect GCP to further expand its portfolio in the near future.

Valuation Our valuation model yields a price target of €14.30 per share. With a 2013E P/E ratio of 3.2, the GCP share is very attractively valued.

FINANCIAL HISTORY & PROJECTIONS

	2011	2012E	2013E	2014E	2015E	2016E
Revenue* (€m)	26.40	38.10	68.16	103.33	137.22	171.66
Y-o-y growth	n.a.	44.3%	78.9%	51.6%	32.8%	25.1%
EBIT (€m)	84.37	109.84	115.60	125.72	147.41	170.51
EBIT margin	319.6%	288.3%	169.6%	121.7%	107.4%	99.3%
Net income (€m)	55.57	68.07	77.82	93.35	105.99	120.26
EPS (€)	n.a.	1.23	1.40	1.68	1.91	2.17
DPS (€)	n.a.	0.07	0.07	0.07	0.07	0.07
FCF (€m)	14.85	35.56	42.18	56.17	80.15	97.55
Equity ratio	52.8%	31.7%	37.2%	38.2%	40.0%	41.4%
Liquid assets (€m)	8.16	79.29	18.40	13.05	11.89	17.15

*Revenue excluding capital gains and property revaluation, detailed information is given in the financials section at the end of this report

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavourable macroeconomic development, and departure of key personnel.

COMPANY PROFILE

GRAND CITY Properties S.A. is a Luxembourg-based real estate company. The firm is searching for opportunistic transactions in distressed or turnaround stage residential real estate properties in Germany's densely populated areas. Grand City Properties has two strategies regarding its real estate investments: buy-build-and-hold as well as buy-build-and-sell.

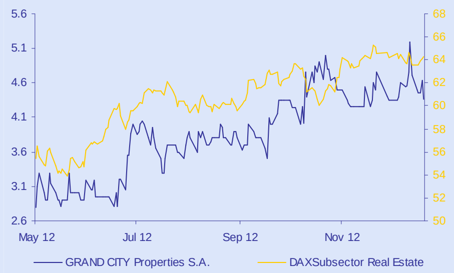
MARKET DATA

As of 1/18/2013

Closing Price	€ 4.37
Shares outstanding	55.50m
Market Capitalisation	€ 242.54m
52-week Range	€ 2.80 / 5.20
Avg. Volume (12 Months)	975

Multiples	2012E	2013E	2014E
P/E	3.6	3.2	2.6
EV/Sales	10.3	5.8	3.8
EV/EBIT	3.6	3.4	3.1
Div. Yield	1.6%	1.6%	1.6%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2012

Liquid Assets	€ 3.42m
Current Assets	€ 53.07m
Intangible Assets	€ 0.07m
Total Assets	€ 367.18m
Current Liabilities	€ 45.21m
Shareholders' Equity	€ 122.84m

SHAREHOLDERS

Edolaxia Ltd.	45.0%
Valuemonth Ltd.	21.2%
Ramzico Ltd.	5.6%
Zanelo Ltd.	2.7%
Free Float	25.5%

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INVESTMENT CASE

OPPORTUNISTIC REAL ESTATE OPTIMISER

Based on strict investment criteria GRAND CITY Properties ("GCP") acquires distressed or turnaround stage residential real estate properties in highly-populated areas in Germany with a significant discount to the properties' fair value. Afterwards, the company begins to optimise and redevelop the real estate properties by investing in the buildings and lowering property operating costs. When negotiating costs with external providers, GRAND CITY Properties has a high bargaining power due to its skilled and experienced management team. According to its two-track strategy, "buy-build-and-hold" as well as "buy-build-and-sell", successful turnaround projects with high occupancy rates and increased rental prices are held in the company's portfolio and generate optimised cash flows - or will be sold, but only if a potential buyer makes an attractive offer.

INTACT GROWTH PROSPECTS FOR THE GERMAN RESIDENTIAL MARKET

In the coming years, an increasingly tight market situation for rented apartments and houses especially in Germany's highly populated areas (where GCP is focusing on) is forecast due to the low number of newly built real estate properties. This should help GRAND CITY Properties to increase the rents in its real estate properties with a lower tenant churn rate. We expect lower tenant churn rates to accelerate the decrease in vacancy rates in the company's turnaround projects. GCP will thus be able to sell its stabilised projects earlier.

With regard to potential buyers of stabilised projects, prospects are also promising. Based on the dynamic market activity especially in the small-sized segment and a growing interest of foreign investors to invest in stable, safe German residential properties, sustained high demand is forecast for the next years.

HIGH CASH POSITION ALLOWS FURTHER INVESTMENTS

GRAND CITY Properties' cash position (end of FY 2012) amounts to roughly €80m due to the company's latest financing activities such as a capital increase (gross proceeds of €15m) and the issuance of convertible bonds (gross proceeds of €100m). The firm is thus able to quickly take advantage of investment opportunities. GCP is currently taking a closer look at different portfolios in the market and following discussions with the management we believe that there is a remarkable pipeline of possible deals due to the company's extensive network and its relationships with different market players.

SWOT ANALYSIS

STRENGTHS

- **Solid financials** Even though GRAND CITY Properties raised additional €100m in financial debt in October 2012 (see chapter "Recent Developments & Financing Activities"), the firm's balance sheet is still solid. The company's estimated pro-forma equity ratio is around 30% and the maturity of the company's debt ranges between six and nine years. GCP's loan-to-value ratio at the end of June was 48%.
- **High cash position** After the issuance of the convertible bond and the latest capital increase (see also chapter "Recent Developments & Financing Activities"), GRAND CITY Properties has sufficient cash to take advantage of arising investment opportunities. On a pro-forma basis, the cash position of the company is estimated to be around €80m (end of FY 2012).
- **Ability to decrease property operating costs** When negotiating property operating costs with external (service) providers such as utilities, GRAND CITY Properties has a high bargaining power due to its skilled and experienced management team.

WEAKNESSES

- **Recent corporate history** GRAND CITY Properties has proven its ability to successfully turnaround distressed properties and sell them afterwards at a higher price (most recently, the company sold its Cologne project). However, with a corporate history of six years, the company still needs to build up a more consistent track record - even though GCP's management team has a track record of nine years.
- **Non-cash items boost income development** As a real estate optimiser, a significant part of GRAND CITY Properties' operating income is a result of fair value gains on investment properties. There is thus a remarkable difference between the company's income development shown in the P&L and the development of GCP's operating cash flow.

Opportunities

- **Higher rents due to tight market conditions** The currently low number of newly built real estate properties is forecast to lead to a tight market situation for rented apartments and houses - especially in highly populated areas in Germany where GRAND CITY Properties is focusing on (see chapter “German Residential Real Estate Market”). This should allow GCP to increase the rents in its properties with a lower tenant churn rate and thus accelerate the decrease in vacancy rates in turnaround projects.
- **Germany is forecast to stay attractive investment market** Based on the dynamic market activity especially in the small-sized segment and a growing interest of foreign investors to invest in stable, safe German residential properties, sustained high demand is forecast for the next years (see also chapter “German Residential Real Estate Market”). Moreover, it is not unlikely that the Germans fear of a recession will lead to increased investment activity and thus also affect development of real estate prices in a positive way.
- **Diversified sourcing opportunities** GRAND CITY Properties has an extensive network and privileged relationships with different market players such as other real estate companies or financial services companies. It is likely that especially GCP’s good relationship with banks could make further opportunistic investments possible - due to deleveraging and liquidity needs of banks that own distressed assets.
- **Uncertain economic situation may increase deal pipeline** Given the uncertain economic situation in Europe, owners of distressed properties may tend to divest their real estate holdings, thus creating additional deal opportunities for GRAND CITY Properties.

Threats

- **Unfavourable interest rate development** Debt financing, which is currently offered to GCP at favourable conditions, could become more expensive in case of an unfavourable development of interest rates and bank margins, thus burdening the company’s profitability. Even though GRAND CITY Properties is minimising this risk by using hedging instruments.
- **Development risk** Complications may arise during the re-development and optimisation process. These complications could for example result in project delays or lead to higher than anticipated project costs, thus slowing down the pace of further improvements in rental yields.
- **Dependency on creditors** Although GCP’s current debt structure is comfortable (lending terms of 5 to 10 years), restrictions in borrowing by banks may have a negative effect on the financing of future projects or the re-financing of existing financial liabilities.

VALUATION

We set a price target of €14.30 for shares of GRAND CITY Properties. We derive this fair value estimate from our valuation model based on detailed forecasts until FY 2016E. Our price target represents an upside of 227%. We consequently rate the GCP stock "Buy".

Weighted Average Cost of Capital

In order to determine GRAND CITY Properties' Weighted Average Cost of Capital (WACC), we use our proprietary multi-factor risk model, which takes company-specific risk factors into account. These risk factors include management strength, balance sheet and financial risk, competitive position and company size.

We assign a medium risk rating to the company. Our WACC calculation of 7.4% is based on a risk-free rate of 3.0% and a market risk premium of 4.0%.

Figure 1: Weighted Average Cost of Capital

WACC	7.4%
Cost of equity	12.2%
Pre-tax cost of debt	4.1%
Tax rate	15.9%
After-tax cost of debt	3.5%
Share of equity capital	45.0%
Share of debt capital	55.0%

Source: First Berlin Equity Research

NET PRESENT VALUE ANALYSIS

Since the company is optimising real estate projects, forecasts beyond a five year horizon are subject to increasing uncertainty in our view. In our analysis of GRAND CITY Properties, we thus base our valuation of GCP on our forecasts out to FY 2016E. Our assumptions regarding future developments are based on the firm's portfolio transaction forecasts.

Our net present value (NPV) analysis of GCP is derived in a three-step process:

I. In order to properly account for the re-development and optimisation character of GRAND CITY Properties' business model, we derive the present value of the company's future real estate portfolio based on our estimates for GCP's portfolio in 2016E.

Figure 2: Portfolio development

Present value of the real estate portfolio (in €'000)	2012E	2013E	2014E	2015E	2016E
Market value of properties (including properties available for sale)	415,037	592,403	814,344	1,031,960	1,269,720
Investments in subsidiaries	14,238	18,095	18,095	18,095	18,095
Combined	429,275	610,498	832,439	1,050,055	1,287,815
Present value					**971,912**

Source: First Berlin Equity Research

II. We have also included the present value of expected dividend payments until 2016E in our valuation. We have discounted these at the company's WACC of 7.4%.

Figure 3: Dividend development

Present value of dividends (in €'000)	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**
Dividend	3,996	3,996	3,996	3,996	3,996
Dividend (discounted)	3,996	3,735	3,478	3,239	3,016
Present value (accumulated)	**17,465**				

Source: First Berlin Equity Research

III. Taking into account the firm's financing activities in FY 2012E, we subtract GRAND CITY Properties' net financial liabilities at end 2012E from the combined portfolio/dividend present value arrived at in the two previous steps.

Figure 4: Valuation summary

Net present value calculation (in €'000)	
Value of real estate portfolio* end of 2016E	1,287,815
Present value of real estate portfolio 2016E	971,912
+ Present value of dividends 2012E-2016E	17,465
= Sum PVs	***989,377***
- Net interest bearing liabilities end of 2012E including convertible bond	191,785
= ***NPV***	***797,592***
/ Outstanding shares	55,500
= NPV per share (in €)	***14.37***

*including investments in subsidiaries

Sensitivity analysis: NPV and NPV per share development						
WACC	6.9%	**7.4%**	7.9%	8.4%	8.9%	9.4%
NPV	816,160	**797,592**	780,157	762,764	745,764	729,144
per share	14.71	**14.37**	14.06	13.74	13.44	13.14

Source: First Berlin Equity Research

Our NPV analysis based on GRAND CITY Properties' balance sheet suggests a market value of €798m for GCP or - based on 55.5m outstanding shares - €14.30 per share.

However, any significant delays in implementing the company's strategy will likely have a significant downside to our estimates.

Note: Since we take into account the present value of dividend payments until FY 2016E, our "per share" valuation of GCP is based on the number of currently outstanding shares. Under the terms of the €100m convertible bonds, the company is restricted regarding the total amount of dividends (maximum payout of €4m per year). This will change after the expected complete conversion of the bonds in 2017E (25m new shares – no debt repayment). A diluted "per share" valuation would have a misleading character with regard to our valuation given the payout restriction under the bond without considering the dividend upside potential after the bond is redeemed. Theoretically, yearly interest payments associated with the bonds amounting to €8m are - beginning in FY 2017E - also available for dividend distribution to shareholders (taking the current level of dividend payments into account, future dividend payments will thus theoretically amount to at least €12m).

BUSINESS MODEL

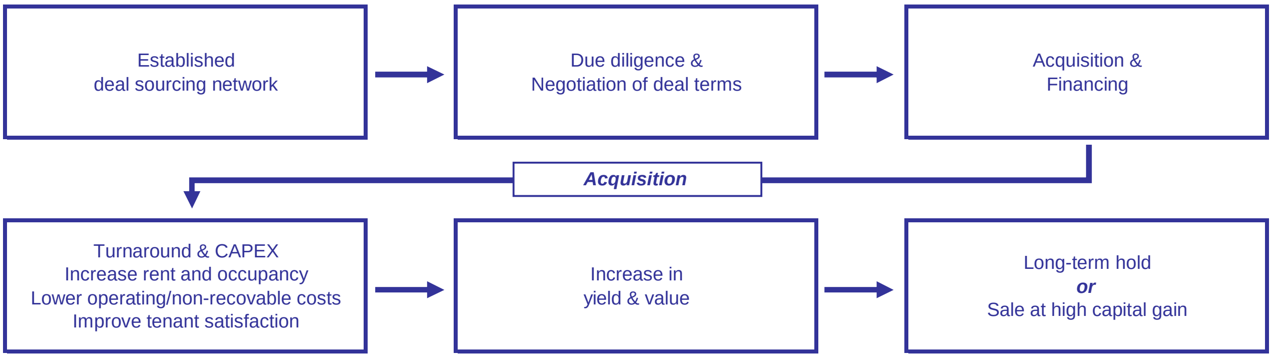
GRAND CITY Properties ("GCP") is searching for opportunistic transactions in distressed or turnaround stage residential real estate properties in highly-populated areas in Germany. The company has a two-track strategy regarding its real estate investments: buy-build-and-hold as well as buy-build-and-sell.

At the beginning, GCP is acquiring its new properties at distressed prices - i.e. a significant discount to the fair value - based on strict investment criteria such as macro and micro location. The newly acquired under-managed assets show high vacancy levels and/or rental prices below the corresponding market rent. In a next step, the company begins to invest in the real estate properties in order to re-develop and optimise the buildings and lowers the property operating expenditures. When negotiating costs with external providers, GRAND CITY Properties has a high degree of bargaining power due to its skilled and experienced management team. Based on an improved tenant satisfaction, GCP gradually increases the occupancy rates and the rental prices until they reach market rent levels afterwards.

According to its two-track strategy mentioned above, successful turnaround projects are held in the company's portfolio and generate stable cash flows - or will be sold if a potential buyer makes an attractive offer.

GCP's portfolio can be divided into three different turnaround stages (see chapter "Real Estate Portfolio"): early turnaround, advanced turnaround and stabilised.

Figure 5: Business model and property life cycle



Source: First Berlin Equity Research, GRAND CITY Properties S.A.

REAL ESTATE PORTFOLIO

GRAND CITY Properties is focusing on opportunistic transactions in distressed or turnaround stage residential real estate properties. Several investment criteria need to be met unless the company will invest in new properties:

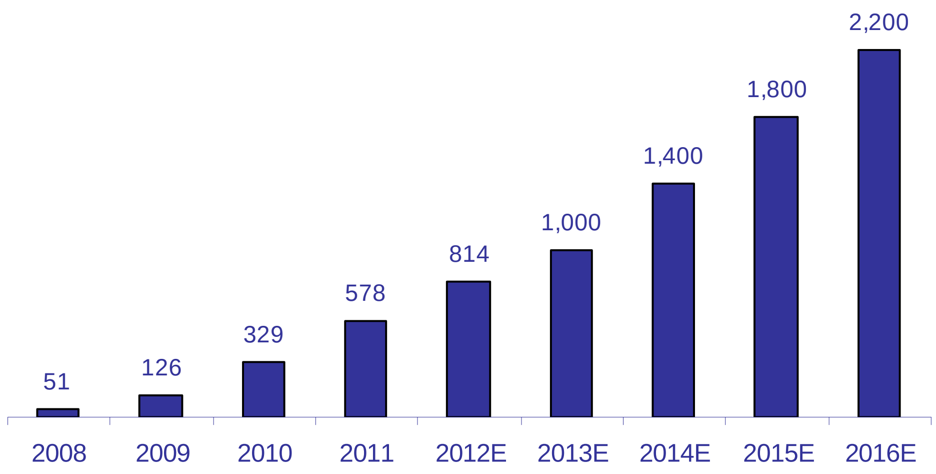
- Use: residential real estate.
- Location: densely populated areas, preferably in Western Germany.
- Property: properties in distressed or turnaround stage, with comparably low occupancy rates and rental prices below the corresponding market rent.

Figure 6: Portfolio data

Key figures current portfolio (January 2013)	
Number of owned residential units	14,005
Number of owned commercial units	854
Total number of owned units	**14,859**
Residential floor area (in m²)	921,974
Commercial floor area (in m²)	98,648
Total floor area (in m²)	**1,020,622**
In-place average rent (in € per m²) at the end of FY 2012	
early turnaround stage	4.52
advanced turnaround stage	4.57
stabilised projects	5.71
Average rent	**4.82**
Residential vacancy rate at the end of FY 2012	
early turnaround stage	22.8%
advanced turnaround stage	15.0%
stabilised projects	3.6%
Geographical allocation by m² at the end of FY 2012	
Velbert	5.2%
Duisburg/Essen	8.5%
Wuppertal	8.0%
Mönchengladbach	5.7%
Düsseldorf/Dortmund	28.1%
Erkrath	5.1%
Hürth/Köln/Bonn	5.8%
Braunschweig/Bielefeld	5.4%
Solingen	4.5%
Hamm/ Lünen	2.7%
Berlin	8.3%
Nürnberg	5.2%
Other	7.5%

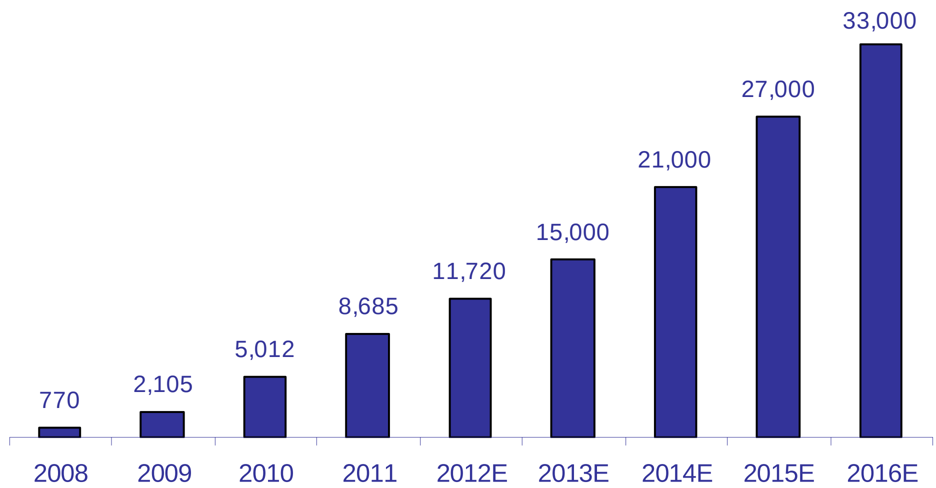
Source: GRAND CITY Properties S.A.

Figure 7: Rentable area development (in '000 m²)



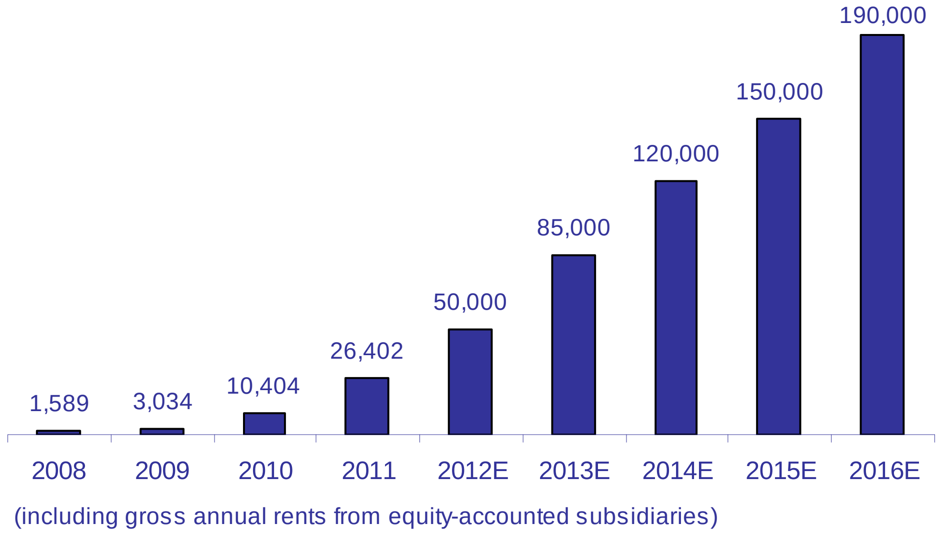
Source: First Berlin Equity Research, GRAND CITY Properties S.A.

Figure 8: Units development (in units)



Source: First Berlin Equity Research, GRAND CITY Properties S.A.

Figure 9: Gross annual rent development (in €'000)

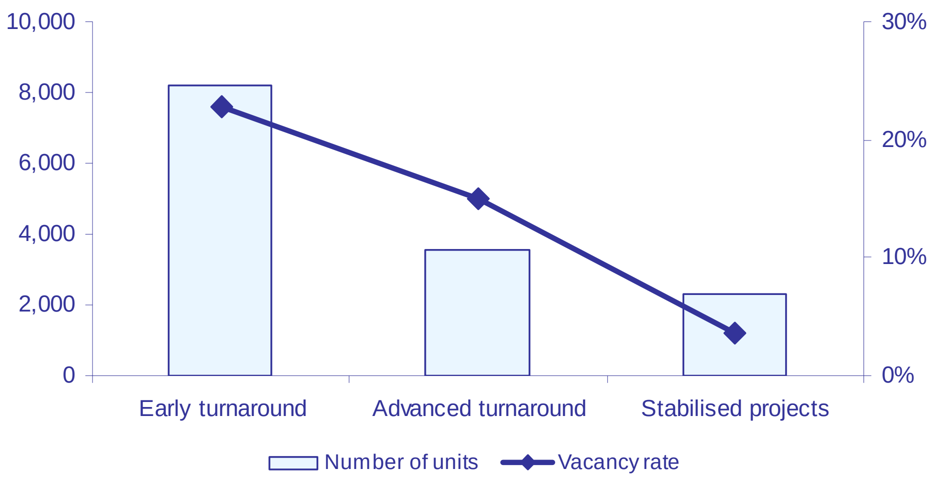


Source: First Berlin Equity Research, GRAND CITY Properties S.A.

According to company information, GRAND CITY Properties owned a total of 11,720 units with a total rentable area of 814,000m² at the end of FY 2012. As of the mid of January 2013, GCP's portfolio grew to approximately 15,000 units with a total rentable area of 1,020,622m². Roughly 90% of the current total floor area is residential floor area. The remaining ca. 10% are commercial floor area. Since the company is "re-developing" the real estate properties it acquires, there are three different development stages that are used to classify the properties:

- Early turnaround projects.
- Advanced turnaround projects.
- Stabilised projects.

Figure 10: Turnaround stages



Source: GRAND CITY Properties S.A.

RECENT DEVELOPMENTS & FINANCING ACTIVITIES

H1 2012 INCOME STATEMENT

H1 2012 revenues (includes net rent and property operating income) increased by 40.5% y/y to €18.29m (H1/11: €13.01m). Operating profit decreased y/y to €54.43m (H1/11: €70.11m) - due mainly to lower capital gains and property revaluation results (-29.1% y/y to €45.71m) as well as higher operating expenditures such as property operating expenses (+43.2% y/y to €8.00m).

GRAND CITY Properties' net financial result was mainly burdened by an extraordinary loss from derivative financial instruments amounting to €3.05m and thus came in below prior year's level at €-10.37m (H1/11: €-2.67m). At the net level, the company reported income of €36.51m (H1/11: €56.46m).

Figure 11: Income development

Financial key figures (in €'000)*					
	30.06.2012	**31.12.2011**	**31.12.2010**	**31.12.2009**	**31.12.2008**
EBITDA	54,425	84,369	23,529	4,818	5,238
EBT	44,058	70,496	21,369	4,285	4,479
Net profit	36,511	58,637	20,228	4,081	4,083

* Since the company acquired 94.8% of Adminond Trading & Investments Ltd. at the begining of 2012, the results for the period 2008-2010 are the results of the financial statements of Adminond Trading & Investments Ltd. and reflect holdings of 100%

Source: First Berlin Equity Research, GRAND CITY Properties S.A.

BALANCE SHEET AS OF 30 JUNE 2012

GRAND CITY Properties' investment properties were valued at €299.16m (end of FY11: €258.12m) at the end of June 2012. Investments in equity-accounted participations increased to €10.44m (end of FY11: €2.40m). Assets held for sale amounted to €32.15m (end of FY11: €5.40m) at the end of H1 2012. Due to H1's high level of investments (see next para.) liquid funds as of 30 June 2012 decreased to €3.42m (end of FY11: €8.16m).

Due to the April 2012 capital increase (issuance of 45m new shares with a par value per share amounting to €0.10) and the positive H1 2012 result, GRAND CITY Properties' equity position (attributable to the owners of the company) as of the end of June 2012 increased to €122.84m (end of FY11: €83.35m). Financial liabilities (short- and long-term) increased to €148.84m (end of FY11: €140.75m), net debt at the end of H1 2012 amounted to €145.41m (end of FY11: €132.59m).

GRAND CITY Properties' LTV ratio (loan-to-value: bank liabilities divided by total investments) as of the end of June came in at 48% (end of FY11: 53%). The company's balance sheet NAV increased to €122.84m (end of FY11: €83.85m).

Figure 12: Balance sheet development

Balance sheet summary (in €'000)*					
	30.06.2012	**31.12.2011**	**31.12.2010**	**31.12.2009**	**31.12.2008**
Assets					
Non-current	314,105	264,690	183,030	58,398	16,112
Current	53,073	25,361	16,484	4,871	1,135
Total assets	**367,178**	**290,051**	**199,514**	**63,269**	**17,247**
Equity*	130,130	89,231	43,397	23,139	4,277
Liabilities					
Long-term	191,843	182,688	143,585	36,034	11,062
Short-term	45,205	18,132	12,532	4,096	1,908
Total equity and liabilites	**367,178**	**290,051**	**199,514**	**63,269**	**17,247**
Equity ratio*	35.4%	30.8%	21.8%	36.6%	24.8%
LTV (loan-to-value)**	48%	53%	61%	47%	58%

* Since the company acquired 94.8% of Adminond Trading & Investments Ltd. at the begining of 2012, the results for the period 2008-2010 are the results of the financial statements of Adminond Trading & Investments Ltd. and reflect holdings of 100%
** Including minority interests
*** Bank liabilities / total investments

Source: First Berlin Equity Research, GRAND CITY Properties S.A.

H1 2012 CASH FLOW STATEMENT

Even though net profit for the period was below prior year's level, operating cash flow increased y/y to €10.77m (H1/11: €4.66m) due to the significantly lower adjustments associated with fair value gains on investment property. Due mainly to higher investments in investment property and equity-accounted participations, net cash flow came in at €-4.74m (H1/11: €-4.74m).

JULY 2012 CAPITAL INCREASE

GRAND CITY Properties increased its capital in July 2012. A total of 5.5m new shares were issued to institutional investors through a private placement at €2.75 per share. The company received gross proceeds of €15.13m which will mainly be used for the acquisition of additional real estate properties. Consequently, the number of outstanding shares increased to 55.5m.

OCTOBER 2012 BOND ISSUANCE

At the beginning of October, GRAND CITY Properties announced that it has successfully placed convertible bonds in an aggregate principal amount of €100m to European institutional investors through a private placement. The bonds have a maturity of five years and carry a coupon of 8% per annum. The conversion price of the bonds will be €4.00. GRAND CITY Properties intends to use proceeds form the bonds issuance for the acquisition of real estate portfolios.

JANUARY 2013 PORTFOLIO UPDATE

According to GRAND CITY Properties, the company's real estate portfolio grew to approximately 15,000 units as of the mid of January 2013. With a floor area of roughly 920,000 m², residential floor area accounted for 90% of GCP's total portfolio.

ESTIMATES 2012E & SUBSEQUENT YEARS

Fiscal year 2012

We expect revenues (including property operating income) to increase to €38.10m due mainly to the higher number of residential units in GCP's portfolio. The transactions during the current fiscal year (see GCP forecast on page 10) such as the acquisition of 3,461 residential units in North Rhine-Westphalia will also lead to high fair value gains on investment property, which we forecast to come in at €92.58m (including capital gains).
At the operating level, income development is mainly influenced by the increase in property operating expenses to €17.14m. We expect EBIT to come in at €109.84m. Net income after minority interests is forecast to increase to €68.07m or €1.23 per share.

Due to the capital increase and the expected positive net income development, GRAND CITY Properties' equity position will improve to €166.59m at the end of December. Financial debt (short- and long-term) will increase to €271.07m due mainly to the convertible bond issuance. Based on GCP's debt and equity financing activities during 2012, the company's cash position is forecast to increase to €79.29m at the end of the year (net cash flow 2012E: €71.13m). The firm's net debt position at the end of FY 2012 will thus amount to €191.79m.

Subsequent years until 2016E

Our top-line forecasts for the period 2013E to 2016E are based on an increase in rents (existing portfolio), an increase in occupancy rates (existing portfolio) as well as inorganic growth through further transactions. Property operating income and expenditures are forecast to increase in line with the growth of the portfolio.

Since GRAND CITY Properties acquires distressed assets we use a transaction multiple of 9.0x net rent for future acquisitions. With regard to the fair value estimation of the properties (as well as for divestments) we use a net rent multiple of 13.0x.

Regarding the duration of the optimisation phase, we assume that it takes GCP on average three years to successfully turn a project around.

Figure 13: Development of revenue and income 2012E to 2016E

in €'000	2012E	2013E	2014E	2015E	2016E
Revenue (incl. property operating income)	38,098	68,157	103,327	137,218	171,660
Growth rate	*44.3%*	*78.9%*	*51.6%*	*32.8%*	*25.1%*
Total revenue (incl. revaluation gains)	130,676	146,879	180,305	218,863	260,064
Growth rate	*31.7%*	*12.4%*	*22.8%*	*21.4%*	*18.8%*
Operating income (EBIT)	109,837	115,595	125,718	147,413	170,509
Margin on total revenue	*84.1%*	*78.7%*	*69.7%*	*67.4%*	*65.6%*
Net income / loss after minority interests	68,074	77,823	93,349	105,991	120,261
Margin on total revenue	*52.1%*	*53.0%*	*51.8%*	*48.4%*	*46.2%*
EPS (in €)	1.23	1.40	1.68	1.91	2.17

Source: First Berlin Equity Research

Detailed information about our forecasts is shown in the financials section at the end of this report (beginning with chapter "Income Statement Analysis"). Any significant delays in implementing the company's strategy will likely have a significant downside to our estimates as already mentioned in the valuation section.

GERMAN RESIDENTIAL REAL ESTATE MARKET

RESIDENTIAL MARKET

According to Germany's Federal Institute for Research on Building, Urban Affairs and Spatial Development ("BBSR"), an increasing number of German regions will see decreasing demand in the local housing markets in the future. However, based on the findings of BBSR's residential market outlook until 2025, building of new residential properties will continue to be important in the next years.

Figure 14: New buildings demand in Germany 2010 to 2025E (in units p.a.)

Western Germany	2010 to 2025	2010 to 2015	2016 to 2020	2021 to 2025
Flats in one- or two-family houses	**98,000**	103,000	97,000	93,000
Flats in apartment buildings	**55,000**	56,000	58,000	52,000
Total	**154,000**	159,000	155,000	145,000
Eastern Germany	**2010 to 2025**	**2010 to 2015**	**2016 to 2020**	**2021 to 2025**
Flats in one- or two-family houses	**17,000**	19,000	18,000	14,000
Flats in apartment buildings	**12,000**	15,000	12,000	10,000
Total	**29,000**	33,000	30,000	24,000
	2010 to 2025	**2010 to 2015**	**2016 to 2020**	**2021 to 2025**
Total	**183,000**	192,000	185,000	169,000

Source: First Berlin Equity Research, Federal Institute for Research on Building, Urban Affairs and Spatial Development

The currently low number of newly built units per year is expected to lead to a tight market situation for rented apartments and houses - especially in highly populated areas in Germany. In order to supply in particular low-income households with affordable residential property, BBSR expects construction of new properties to increase again in the future.

Figure 15: Key indicators for the German residential market (1 of 2)

Indicator	Unit	Germany	Western Germany	Eastern Germany
Newly built apartments				
Residential and non-residential buildings	*in units*	159,832	136,698	23,134
thereof: newly built residential buildings	*in units*	140,096	121,062	19,034
One- or two-family houses	*in units*	85,367	72,263	13,104
Apartment buildings	*in units*	53,014	47,111	5,903
thereof: owner-occupied	*in units*	27,364	25,196	2,168
Residential homes	*in units*	1,715	1,688	27

Source: First Berlin Equity Research, Federal Institute for Research on Building, Urban Affairs and Spatial Development ("KOMPAKT 01/12")

Figure 16: Key indicators for the German residential market (2 of 2)

Indicator	Unit	Germany	Western Germany	Eastern Germany
Housing stock				
Total	*in mn units*	39.52	30.81	8.71
One- or two-family houses	*in mn units*	18.63	15.63	3.00
Apartment buildings	*in mn units*	20.89	15.19	5.71
Share of one- or two-family houses	*in %*	47.1%	50.7%	34.4%

Indicator	Unit	Germany	Western Germany	Eastern Germany
Rent and real estate prices				
Rent in new and existing properties (utilities not included)	*in €/m²*	6.20	6.54	5.32
Rent in existing properties (utilities included)	*in €/m²*	7.43	-	-
Burden caused by utilities	*in %*	22%	23%	19%

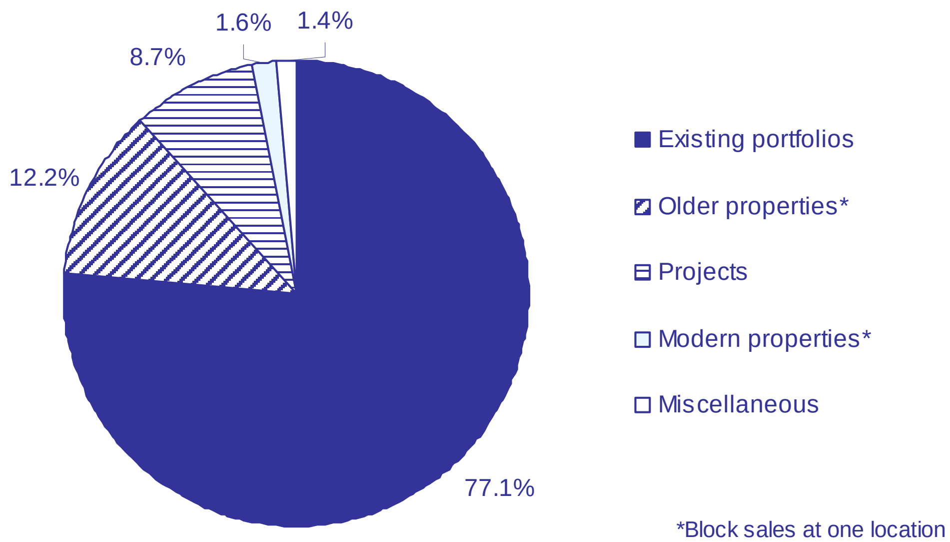
Indicator	Unit	Germany	Western Germany	Eastern Germany
Vacancy	*in %*	3.7%	2.9%	5.8%
Owner-occupancy	*in %*	43.2%	45.7%	32.5%

Source: First Berlin Equity Research, Federal Institute for Research on Building, Urban Affairs and Spatial Development ("KOMPAKT 01/12")

RESIDENTIAL INVESTMENT MARKET

According to BNP Paribas Real Estate, investments in residential portfolios amounted to €8.7bn in 9M 2012. Transaction volume thus more than doubled in y/y comparison (+108%). Volume growth was partly driven by large portfolio transactions such as the Deutsche Wohnen-BauBeCon deal (ca. 23,500 units) for more than €1.2bn or the sale of roughly 21,000 LBBW residential units for more than €1.4bn.

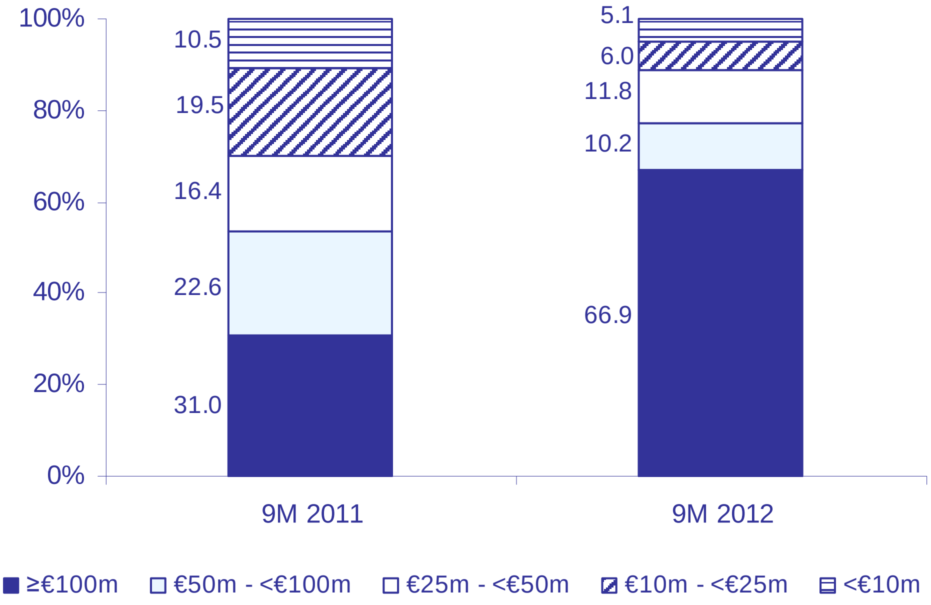
Figure 17: Investments according to asset class in 9M 2012



Source: First Berlin Equity Research, BNP Paribas Real Estate

However, since most of the major transactions happened during H1 2012, Q3 2012 was dominated by medium-sized deals with only two transactions over €100m. During 9M 2012 BNP Paribas registered 171 transactions with a total of roughly 150,000 units involved. The average volume per deal was around €51m.

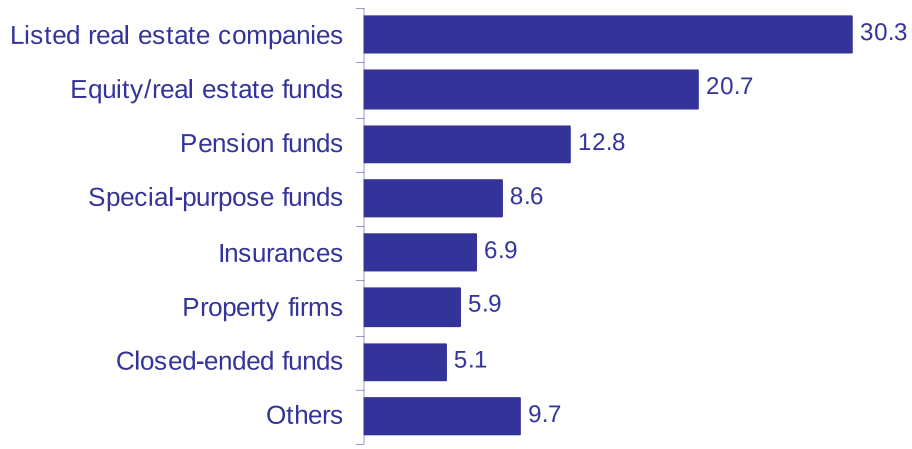
Figure 18: Investments according to size categories (in %)



Source: First Berlin Equity Research, BNP Paribas Real Estate

Regarding asset-class ranking, multi-location portfolios of existing properties account for 77% of the total volume due mainly to the large number of completed big deals. Block sales of older properties account for 11%. Modern properties and other assets such as halls of residence are currently of minor importance.

Figure 19: Investments according to buyers' groups 9M 2012 (in %)



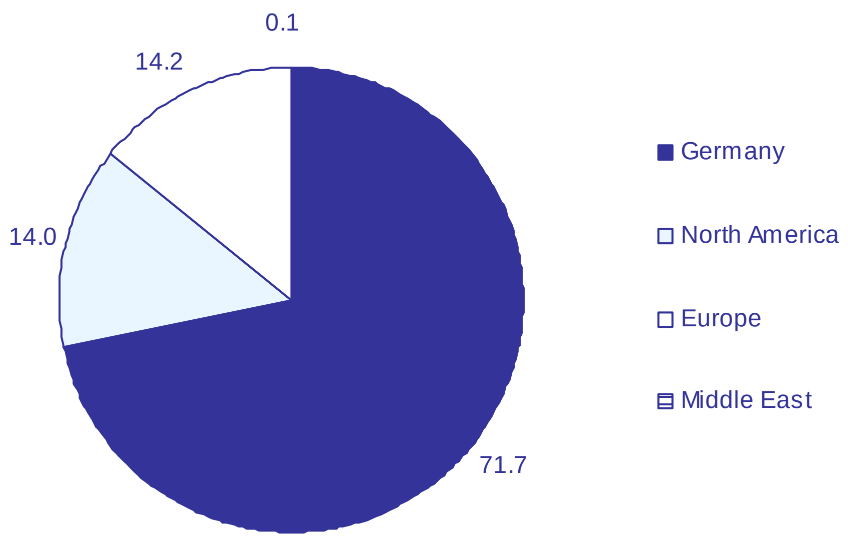
Source: First Berlin Equity Research, BNP Paribas Real Estate

With a 9M 2012 market share of almost 67% of total volume, deals over €100m still dominate the German residential real estate market. Small transactions with a volume of less than €10m account for slightly more than 5% of total turnover. Around half of all 9M 2012 transactions had a volume of under €10m.

In 9M 2102, more than half of all residential property investments were made by listed real estate companies (share of more than 30%) and equity/real estate funds (roughly 21%). Pension funds accounted for nearly 13% of the investment volume.

German investors are the biggest buyer group in the German residential real estate market (share of 72% in 9M 2012 transaction volume), followed by European investors (slightly more than 14%) and North American investors (14%).

Figure 20: Investments according to origin of capital in 9M 2012 (in %)



Source: First Berlin Equity Research, BNP Paribas Real Estate

Purchase prices remained stable in Q3 2012. In the most important market segment - portfolios of existing properties - prices generally ranged between €700 and €850 per m². The highest per m² selling prices were recorded in the project development segment at major German investment locations. Project developments were traded between €3,300 to €3,500 per m² with significantly higher selling prices for top properties in Germany's top locations ("A" locations such as Munich or Hamburg).

According to BNP Paribas' forecast for Germany's residential real estate market in fiscal year 2012, it is likely that the €10bn threshold will be crossed. Based on foreseeable major deals, dynamic market activity especially in the small-sized segment and a growing interest of foreign investors to invest in stable, safe German residential properties, sustained high transaction volumes are also forecast for the medium-term.

MANAGEMENT TEAM

Yakir Gabay, Founder & Managing Partner

Yakir Gabay is founder and managing partner of GRAND CITY Group since 2004. Before, Mr Gabay was chairman & managing partner of an investment company traded on the Tel Aviv stock exchange, which managed more than $30bn of assets. Prior to that, he was CEO of Israeli Bank Leumi's investment banking. Yakir holds a BA in Accounting and Economics, an MBA and is also Certified Public Accountant (CPA).

Rafael Zamir, CFO

Rafael joined the company in 2012. Prior to that, he worked as manager for Ernst & Young in the real-estate and financial institutions sectors. Mr Zamir holds an MBA and is also a CPA.

Shmuel Mayo, COO

Mr Mayo has been with GRAND CITY Group since 2006. Prior to that, Shmuel has held the position of the CEO of Dankner Group, a leading Israeli international investment conglomerate with more than $8bn of assets under management. Shmuel holds a BA in economy and accounting, a BA in law and CPA from Bar Ilan University.

Ran Laufer, Head of Marketing

Ran joined GRAND CITY Properties in 2010. His prior experience includes working as a senior consultant at the Reuven Schilo Financial Consultancy, as marketing & sales manager at the U. Dori Group as well as deputy and marketing manager at Industrial Buildings Corporation, a leading Israeli real estate company.

Michael Schill, Head of Operations

Mr Schill joined GRAND CITY Properties in 2010. Michael is experienced in asset and property management. Before joining GRAND CITY Properties, Michael worked for the Habarent Group, where he managed a residential and commercial real estate portfolio with a rental area of 350,000m².

David Netzer, Head of Accounting

Mr Netzer joined GRAND CITY Properties in 2011. Before, David worked for KPMG in the real-estate and financial institutions sectors. He holds an MBA and is also CPA.

Or Zohar, Head of Business Development

Prior to working for GRAND CITY Properties, Mr Zohar held positions as head of business development at Mark Hotels GmbH and as Managing Director in Bluebay Gmbh. He holds a BSc and a MA in real estate and finance.

SHAREHOLDERS, STOCK & BOND INFORMATION

Stock Information	
ISIN	LU0775917882
WKN	A1JXCV
Bloomberg ticker	GYC
No. of issued shares	55,500,000
Transparency standard	Entry Standard
Country	Luxembourg
Sector	Financial Services
Subsector	Real Estate

Source: Börse Frankfurt, GRAND CITY Properties S.A.

Bond Information	
ISIN	XS0839410221
WKN	A1HBF8
Bloomberg ticker	GYCA
No. of issued bonds	1,000 à €100,000
Coupon	8.00%
Maturity	5 years
Redemption	15 October 2017
Transparency standard	Open Market

Source: Börse Frankfurt, GRAND CITY Properties S.A.

Shareholder Structure	
Edolaxia Ltd.	45.0%
Valuemonth Ltd.	21.2%
Ramzico Ltd.	5.6%
Zanelo Ltd.	2.7%
Free Float	25.5%

Source: GRAND CITY Properties S.A.

INCOME STATEMENT ANALYSIS

All figures in EUR '000	2012E	2013E	2014E	2015E	2016E
Revenue including property operating income	**38,098**	**68,157**	**103,327**	**137,218**	**171,660**
Capital gains and property revaluation	92,578	78,722	76,978	81,645	88,405
Total revenues	**130,676**	**146,879**	**180,305**	**218,863**	**260,064**
Property operating expenses	17,144	25,900	40,814	53,515	66,947
Personnel expenses	1,219	1,295	1,374	1,468	1,579
Other operating income (expense)	-2,476	-4,089	-12,399	-16,466	-21,028
Operating income (EBIT)	**109,837**	**115,595**	**125,718**	**147,413**	**170,509**
Net financial result *	-17,282	-10,073	-12,361	-19,017	-25,179
Pre-tax income (EBT)	**92,555**	**105,522**	**113,357**	**128,396**	**145,331**
Deferred and current tax expenses	-14,670	-16,725	-17,967	-20,351	-23,035
Income / loss for the year	**77,885**	**88,797**	**95,390**	**108,046**	**122,296**
Minority interests	-9,811	-10,974	-2,040	-2,054	-2,035
Net income / loss after minority interets	**68,074**	**77,823**	**93,349**	**105,991**	**120,261**
EPS (in €)	**1.23**	**1.40**	**1.68**	**1.91**	**2.17**

* 2012E includes extraordinary item associated with hedging expenses

Ratios					
EBIT margin	84.1%	78.7%	69.7%	67.4%	65.6%
Net margin	52.1%	53.0%	51.8%	48.4%	46.2%
Tax rate	15.9%	15.9%	15.9%	15.9%	15.9%
Expenses as % of revenues					
Personnel expenses	3.2%	1.9%	1.3%	1.1%	0.9%
Y-Y Growth					
Total revenues	31.7%	12.4%	22.8%	21.4%	18.8%
Operating income	30.2%	5.2%	8.8%	17.3%	15.7%
Net income/ loss after minority interests	22.5%	14.3%	20.0%	13.5%	13.5%

BALANCE SHEET ANALYSIS

All figures in EUR '000	2012E	2013E	2014E	2015E	2016E
Assets					
Current assets, total	**94,423**	**33,714**	**28,624**	**27,677**	**33,145**
Cash and cash equivalents	79,288	18,402	13,054	11,888	17,155
Other current assets	15,135	15,312	15,570	15,789	15,990
Non-current assets, total	**431,630**	**612,853**	**834,794**	**1,052,410**	**1,290,170**
Investment property (incl. PP&E)	415,130	592,496	814,437	1,032,053	1,269,813
Goodwill & other intangibles	67	67	67	67	67
Investments in subsidiaries	14,238	18,095	18,095	18,095	18,095
Other assets	2,195	2,195	2,195	2,195	2,195
Total assets	**526,053**	**646,568**	**863,417**	**1,080,087**	**1,323,315**
Shareholders' equity & debt					
Current liabilities, total	**21,979**	**22,110**	**22,111**	**22,281**	**122,553**
Short-term debt	0	0	0	0	100,000
Accounts payable	18,318	18,449	18,450	18,620	18,892
Current provisions	3,661	3,661	3,661	3,661	3,661
Long-term liabilities, total	**317,886**	**353,469**	**478,923**	**591,373**	**616,030**
Long-term debt	271,073	298,149	426,149	544,649	568,649
Other liabilities	46,813	55,320	52,774	46,724	47,381
Minority interests	**19,599**	**30,573**	**32,614**	**34,668**	**36,703**
Shareholders' equity	**166,589**	**240,415**	**329,770**	**431,765**	**548,029**
Total consolidated equity and debt	**526,053**	**646,568**	**863,417**	**1,080,087**	**1,323,315**
Ratios					
Current ratio	4.30	1.52	1.29	1.24	0.27
Quick ratio	4.30	1.52	1.29	1.24	0.27
Financial leverage	3.16	2.69	2.62	2.50	2.41
Book value per share	3.00	4.33	5.94	7.78	9.87
Net debt	191,785	279,747	413,095	532,761	651,494
Return on equity (ROE)	40.9%	32.4%	28.3%	24.5%	21.9%

CASH FLOW ANALYSIS

All figures in EUR '000	2012E	2013E	2014E	2015E	2016E
EBIT	**109,837**	**115,595**	**125,718**	**147,413**	**170,509**
Depreciation and amortisation	0	0	0	0	0
EBITDA	**109,837**	**115,595**	**125,718**	**147,413**	**170,509**
Changes in working capital	1,400	-46	-257	-50	71
Other adjustments	-73,165	-71,123	-65,776	-63,370	-68,220
Operating cash flow	**38,071**	**44,426**	**59,685**	**83,993**	**102,360**
(Maintenance) CAPEX	-2,514	-2,249	-3,513	-3,842	-4,806
Free cash flow	**35,557**	**42,177**	**56,172**	**80,151**	**97,554**
Debt financing, net	**113,401**	**44,000**	**128,000**	**118,500**	**124,000**
Equity financing, net	**15,125**	**0**	**0**	**0**	**0**
Other changes in cash	**-92,953**	**-147,062**	**-189,520**	**-199,817**	**-216,287**
thereof: acquisitions & disposals, net	**-68,977**	**-127,821**	**-166,232**	**-173,245**	**-186,763**
Net cash flows	**71,130**	**-60,886**	**-5,348**	**-1,166**	**5,267**
Cash, start of the year	8,158	79,288	18,402	13,054	11,888
Cash, end of the year	**79,288**	**18,402**	**13,054**	**11,888**	**17,155**
Y-Y Growth					
Operating cash flow	155.0%	16.7%	34.3%	40.7%	21.9%
Free cash flow	139.5%	18.6%	33.2%	42.7%	21.7%

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

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BUY: Expected return greater than 25%
ADD: Expected return between 0% and 25%
REDUCE: Expected negative return between 0% and -15%
SELL: Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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