

Grand City Properties S.A.

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

Q1/24 results

RATING
BUY

PRICE TARGET
€ 13.70

Return Potential 18.5%
 Risk Rating Medium

TIME TO FOCUS ON THE UPSIDE

Q1 reporting again featured a good operating performance led by 3.4% LFL rental growth, while the rise in financing costs is tailing off. We expect operational momentum to continue with absolutely no sign of Germany's acute flat shortage improving any time soon. The capital structure has been revamped over the past year by deleveraging measures, increased secured debt, and, most recently, the successful perpetual note exchange offer. The more robust financial profile should help protect the company from any future macro turbulence. We think the seemingly endless negative story of the German property market has about played out, and we expect GCP shares (+13% YTD) to continue to rebound. We remain Buy-rated on GCP with a €13.7 target price (old: €12.9)

Time to focus on the upside Management again sounded upbeat on the Q1 earnings call in discussing: (1) the now largely revamped capital structure and re-established capital markets access; (2) a solid set of Q1 numbers; and (3) favourable market fundamentals i.e. the systemic supply-demand imbalance in key German metropolitan hubs and London. There were no material changes to the all-important transaction market, which is still gated by elevated rates. Deals remain small, but GCP brass remain hopeful that this could change in H2/24 if expected rate cuts indeed materialise. Although the landlord reiterated plans to remain a net seller, deleveraging pressure has eased for now. The cash runway covers maturities to YE26 and balance sheet KPIs are improving overall. We think these factors should continue to spur the rebound in GCP shares.

Germany has a massive housing problem While this (obviously) is not breaking news, the problem can't be overstated, and the crisis will likely get worse as management once again discussed on the Q1 call. Finding a flat in the German capital is tantamount to winning the lottery these days. The German Property Federation (ZIA) puts the country's flat shortage at 600k, and the deficit is... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023	2024E	2025E
Rental income (€m)	535.4	524.6	582.5	607.7	622.5	638.9
Y/Y growth	-4.4%	-2.0%	11.0%	4.3%	2.4%	2.6%
Adj. EBITDA (€m)	299.8	298.6	308.1	319.6	330.0	341.7
Net income (€m)	362.2	523.5	129.2	-547.5	-121.8	247.2
EPRA NTA (€m)	4,566.4	5,020.2	4,655.6	4,013.8	3,858.8	3,983.9
EPRA NTAPS (€)	26.5	30.4	27.0	23.2	22.4	23.1
DPS (€)	0.82	0.83	0.00	0.00	0.79	0.81
FFO 1* (€m)	182.2	186.3	192.2	183.9	181.4	186.3
FFOPS 1* (€)	1.07	1.11	1.14	1.07	1.05	1.08
Liquid assets (€m)	1,697.9	1,113.5	436.8	1,253.8	1,372.1	1,159.4

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.

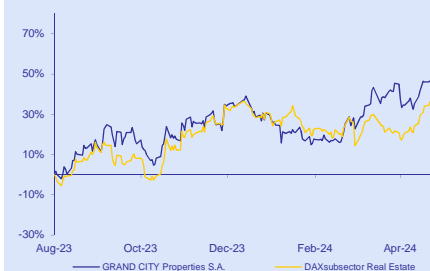
MARKET DATA

As of 16 May 2024

Closing Price	€ 11.56
Shares outstanding	176.19m
Market Capitalisation	€ 2,036.76m
52-week Range	€ 6.85 / 11.56
Avg. Volume (12 Months)	189,473

Multiples	2023	2024E	2025E
P/FFO 1	10.8	11.0	10.7
P/NTA	0.5	0.5	0.5
FFO 1 Yield	9.2%	9.1%	9.3%
Div. Yield	0.0%	6.8%	7.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2024

Liquid Assets	€ 1,287.0m
Investment properties	€ 8,681.0m
EPRA NTA	€ 4,063.0m
Total Assets	€ 11,030.0m
Current Liabilities	€ 718.0m
Total Equity	€ 5,277.0m

SHAREHOLDERS

Edolaxia Ltd.	61.0%
Treasury	2.0%
Free float	37.0%



... expected to swell to over 830k by YE27. New construction has been crippled by soaring costs and remains woefully incapable of closing the gap any time soon. A scant 260k apartment building permits were granted in 2023—the lowest level since 2012 according to Destatis, Germany's Federal Statistical Office. We note that the German government hasn't hit its 400k apartment target since 2021, and market watchers think new build might fall short of the 200k level this year. While this is terrible news for urbanites looking for flats to rent, GCP stands to prosper with its well-located German and London portfolios.

FIRST QUARTER HIGHLIGHTS

GCP realised total LFL net rental growth of 3.4% comprising 3.3% in-place rent and 0.1% occupancy increases. In-place rent LFL contains 1.3% re-letting and 2.0% indexation. The strong performance owes to the ongoing market dynamics of the German and London rental markets.

Table 1: First quarter vs prior year and FBe

in €m	Q1/24	Q1/24E	Variance	Q1/23	Variance
Rental income	149	150	-0.6%	150	-0.6%
Net rent	105	104	1.1%	101	3.9%
Adjusted EBITDA	82	80	2.0%	80	3.1%
margin	78%	77%	-	78%	-
FFO 1	45	44	1.9%	47	-3.6%
FFOPS 1 (€)	0.26	0.25	1.9%	0.27	-3.7%

Source: First Berlin Equity Research; Grand City Properties

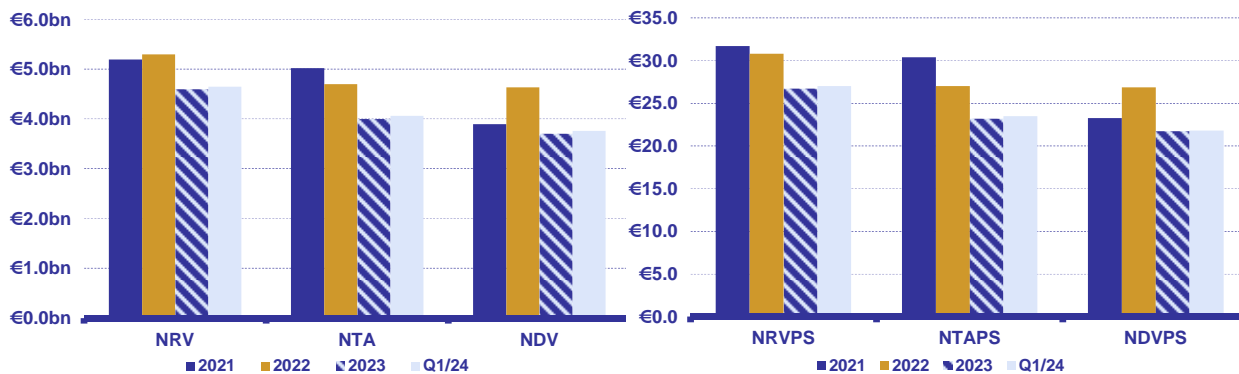
AEBITDA rose 3.1% Y/Y in the January-to-March period, owing to the increase in net rent as well as the good operational performance. FFO 1, the key industry indicator for recurring operational cash flow, topped our estimate at €45m in Q1/24 but missed the prior year result by 3.6%, mainly due to higher perpetual note attribution. This is traced to two series of notes that reset in 2023. However, only one series partially impacted Q1/23, whereas the full effects of both resets were visible in Q1/24.

FFO 2 tallied €45m on the €30m in disposals executed at a ~2% premium to book value and 3% over total costs. Another €23m in disposals were inked in Q1, which are expected to close in the coming months.



Portfolio value steady at €2,119 / m² (YE23: €2,109 / m²) The company made no material acquisitions in the first quarter. In-place rent stood at €8.7 / m² at the end of Q1 vs €8.6 / m² at YE23, while the portfolio vacancy rate remained close to record lows at 3.9%. Annualised net rent tallied €410m at the end of the reporting period. The portfolio currently has rent reversionary potential to €500m (~22%) to be captured over the mid- to long-term. As discussed earlier, a strained housing market should provide strong tailwinds to harness this upside for years to come.

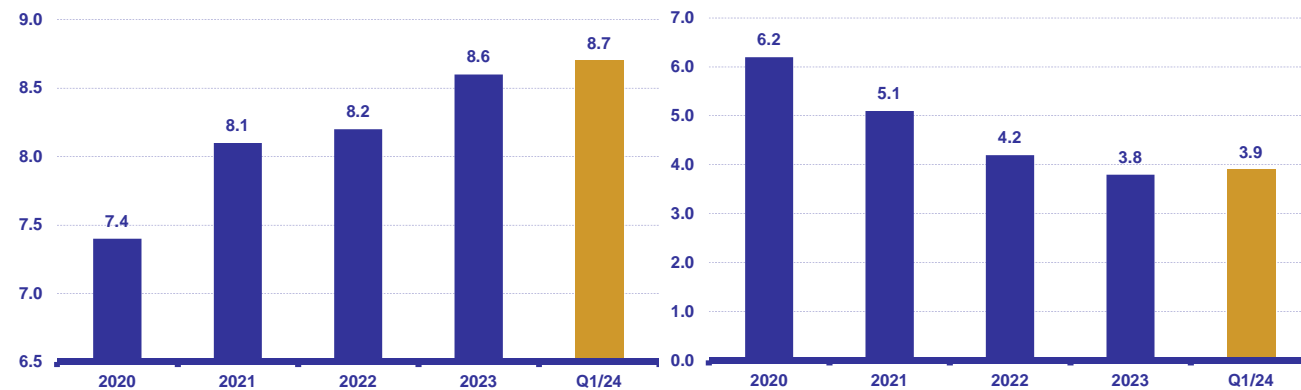
Figure 1: EPRA BPR reporting



Source: First Berlin Equity Research; Grand City Properties

Grand City did not book any revaluation results in Q1 but plans to have a large portion of the portfolio assessed for six month reporting in August. Management continue to caution that there could be further yield expansion in H1 but at a lesser magnitude than witnessed in 2023.

Figure 2: In-place rent and vacancy developments





Financial profile improving The balance sheet featured a downtick in the LTV of 36% (YE23: 37%), or 48% assuming perpetual notes are counted as debt, while the net debt / EBITDA and interest coverage (ICR) ratios also improved to 9.6x and 5.8x respectively at the end of Q1.

Table 2: Financial highlights

in €m	Q1/24	2023	Variance
Cash & liquid assets	1,287	1,230	5%
Investment property	8,681	8,629	1%
Unencumbered assets	6,632	6,607	0%
Unencumbered assets ratio	75%	75%	-
Total equity	5,277	5,230	1%
EPRA NTA	4,063	4,014	1%
Loans and borrowings	878	872	1%
Straight & convertible bonds	3,549	3,560	0%
Loan-to-Value (LTV)	36%	37%	-
Equity ratio	48%	49%	-

Source: First Berlin Equity Research; Grand City Properties

In April, some 82% of holders of the two series of perpetual notes voluntarily accepted exchange offers equal to a nominal value of ~€449m. The landlord also issued €410m in new notes and repurchased €34m of perpetual notes via the tender offer. Aside from shoring up the S&P metrics—the ratings agency regards perpetual notes as 50% equity / 50% debt until the first call date—GCP will save around €2m in coupon payments per annum, thereby positively impacting bottom line FFO 1. The successful exchange means the landlord has checked one of the last major boxes in adjusting its balance sheet to the world of expensive money.



VALUATION MODEL

We think the revamped balance sheet, which now features a reshuffled perpetual note portfolio, should pass muster for even jaded investors. After a two year period where the property segment has been a never ending negative story, sentiment appears to be shifting with Q1 reporting across the sector. We thus expect GCP's operational positives to move back into the spotlight and stick to our Buy rating. Our TP is now €13.7 (old: €12.9) after factoring in the latest declines in 10 year German bonds.

Table 3: Confirmed 2024 guidance vs FBe and prior year

	Unit	2024 Guidance	FBe 2024	2023A
FFO 1	€m	175 -185	181	184
FFOPS 1	€	1.01 - 1.07	1.05	1.07
DPS *	€	0.76 - 0.80	0.79	0.00
LFL net rent growth	%	~3.0	3.5	3.3
LTV	%	< 45	36	36

**subject to market conditions and AGM approval*

Source: First Berlin Equity Research estimates; Grand City Properties

Table 4: DCF model

All figures in EURm	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
AEBITDA	330	342	362	383	401	420	439	458
(-) Tax	-45	-46	-49	-52	-54	-57	-59	-62
(=) Net operating cash flow	285	296	313	331	347	363	379	396
(-) Total investments (CapEx and WC)	185	-225	-213	-205	-194	-185	-179	-182
(-) Capital expenditures	202	-218	-202	-194	-185	-176	-169	-173
(-) Working capital	-16	-7	-11	-11	-9	-9	-9	-9
(=) Free cash flows (FCF)	471	71	100	127	153	178	201	214
PV of FCFs	457	65	88	106	123	136	146	148

All figures in EUR '000	WACC	Terminal AEBITDA margin						
		79.2%	79.7%	80.2%	80.7%	81.2%	81.7%	82.2%
PV of FCFs in explicit period	4.4%	22.2	22.7	23.2	23.7	24.2	24.7	25.2
PV of FCFs in terminal period	4.6%	18.4	18.9	19.4	19.8	20.3	20.8	21.2
Enterprise value (EV)	4.8%	15.3	15.7	16.1	16.5	16.9	17.4	17.8
+ Net cash / - net debt	5.0%	12.5	12.9	13.3	13.7	14.1	14.4	14.8
Hybrid capital	5.2%	10.1	10.5	10.8	11.2	11.5	11.9	12.2
Shareholder value	5.4%	8.0	8.3	8.6	9.0	9.3	9.6	9.9
Fair value per share in EUR	5.6%	6.1	6.4	6.7	7.0	7.3	7.6	7.9

	WACC	Terminal growth rate						
		-0.5%	0.0%	0.5%	2.0%	1.5%	2.0%	2.5%
Cost of equity	4.4%	2.7	5.0	7.8	23.7	16.6	23.7	34.6
Pre-tax cost of debt	4.6%	1.5	3.6	6.2	19.8	13.8	19.8	28.8
Tax rate	4.8%	0.5	2.3	4.6	16.5	11.3	16.5	24.0
After-tax cost of debt	5.0%	-0.5	1.2	3.2	13.7	9.2	13.7	20.0
Share of equity capital	5.2%	-1.5	0.1	2.0	11.2	7.3	11.2	16.5
Share of debt capital	5.4%	-2.3	-0.9	0.8	9.0	5.5	9.0	13.6
WACC	5.0%	-3.1	-1.8	-0.3	7.0	4.0	7.0	11.0

**Please note our model runs through 2033 and we have only shown the abbreviated version for formatting purposes; net debt includes hybrid notes for DCF purposes*



INCOME STATEMENT

All figures in EURm	2020	2021	2022	2023	2024E	2025E
Net rent	372	375	396	411	421	433
Rental and operating income	535	525	583	608	623	639
Property revaluations & capital gains	343	695	118	-890	-353	134
Result from equity-accounted investees	4	4	0	0	0	0
Property expenses	-226	-218	-266	-279	-283	-288
Cost of buildings sold	0	0	0	0	0	0
Administration expenses	-11	-11	-11	-11	-11	-11
Depreciation & amortisation	-5	-8	-10	-9	-9	-10
Operating income (EBIT)	640	986	413	-582	-34	465
Finance expenses	-53	-46	-47	-57	-60	-66
Other financial results	-46	-149	-137	-86	0	0
Pre-tax income (EBT)	542	791	229	-724	-94	399
Current tax	-31	-39	-39	-41	-42	-43
Deferred tax	-61	-135	-11	127	42	-16
Tax result	-93	-174	-50	86	0	-60
Minority interests	-54	-69	-25	124	14	-51
Hybrid note investors	-33	-25	-25	-34	-42	-42
Net income	362	524	129	-548	-122	247
Basic EPS (€)	2.13	3.12	0.77	-3.18	-0.71	1.43
AEBITDA	300	299	308	320	330	342
Ratios						
AEBITDA margin (% of net rent)	80.5%	79.7%	77.8%	77.7%	78.3%	79.0%
Tax rate	10.5%	13.1%	12.7%	-12.8%	12.7%	12.7%
Expenses (% of net rent)						
Property expenses	60.8%	58.2%	67.2%	67.8%	67.1%	66.5%
Administration expenses	2.9%	3.0%	2.7%	2.7%	2.6%	2.6%
Y-Y Growth						
Rental and operating income	-4.4%	-2.0%	11.0%	4.3%	2.4%	2.6%
Total revenues	-4.4%	-2.0%	11.0%	4.3%	2.4%	2.6%
Operating income	-7.6%	54.0%	-58.1%	n.m.	n.m.	n.m.
Adjusted EBITDA	0.7%	-0.4%	3.2%	3.7%	3.3%	3.5%
Net income/ loss	-11.0%	44.5%	-75.3%	n.m.	n.m.	n.m.
Funds from Operations (FFO)						
Operating profit	640	986	413	-582	-34	465
Depreciation and amortisation	5	8	10	9	9	10
EBITDA	645	994	423	-572	-25	475
Property revaluations & capital gains	-343	-695	-118	890	353	-134
Others	-2	-1	3	2	2	2
Adjusted EBITDA	300	299	308	320	330	342
Financial expense	-53	-46	-47	-57	-60	-66
Tax	-31	-39	-39	-41	-42	-43
Minority & JV contributions	-1	-2	-5	-4	-5	-5
FFO 1 (before perpetuals)	215	211	217	218	224	228
Perpetual note adjustment	-33	-25	-25	-34	-42	-42
FFO 1	182	186	192	184	181	186



BALANCE SHEET

All figures in EURm	2020	2021	2022	2023	2024E	2025E
Current assets, total	2,264	1,679	1,134	1,841	1,881	1,680
Cash and cash equivalents	1,412	895	325	1,129	1,246	1,032
Traded securities at fair value though P&L	286	218	112	125	126	127
Trade and other receivables	395	452	353	391	409	420
Inventories - Trading property	16	0	0	0	0	0
Assets held for sale	155	114	344	196	100	100
Non-current assets, total	8,602	9,883	9,997	9,078	8,643	9,022
Equipment and intangible assets	27	70	77	64	70	77
Investment property	8,043	9,364	9,550	8,650	8,190	8,543
Equity accounted investees	108	0	0	0	0	0
Other LT assets	373	397	316	298	310	322
Deferred tax assets	51	51	54	66	73	80
Total assets	10,866	11,562	11,131	10,918	10,524	10,702
Current liabilities, total	427	773	309	654	644	1,089
Short-term debt	147	455	5	299	281	715
Trade and other payables	209	216	225	254	256	260
Other current liabilities	71	103	79	101	107	114
Long-term liabilities, total	4,884	4,986	4,908	5,034	4,818	4,389
Long-term debt	427	353	319	863	950	1,200
Convertible and straight bonds	3,639	3,642	3,612	3,271	3,000	2,294
Deferred taxes	634	760	789	662	620	636
Other LT liabilities	183	231	189	239	249	259
Minority interests	535	615	666	516	502	553
Shareholders' equity	5,020	5,188	5,249	4,714	4,561	4,671
Total consolidated equity and debt	10,866	11,562	11,131	10,918	10,524	10,702
Ratios						
EPRA NTA* (€m)	4,566	5,020	4,656	4,014	3,859	3,984
EPRA NTAPS* (€)	26.5	30.4	27.0	23.2	22.4	23.1
Net debt (€m)	2,521	3,342	3,506	3,202	2,859	3,050
Net debt / equity (x)	0.5	0.6	0.7	0.7	0.6	0.7
Net debt / EBITDA (x)	8.4	11.2	11.4	10.0	8.7	8.9
Interest cover (x)	5.7	6.4	6.6	5.6	3.7	3.6
Loan-to-value (LTV)	31%	36%	36%	37%	36%	37%
Equity ratio	51%	50%	53%	48%	48%	49%
Return on equity (ROE)	8.1%	10.6%	3.0%	-12.2%	-1.8%	6.5%



CASH FLOW STATEMENT

All figures in EURm	2020	2021	2022	2023	2024E	2025E
Net income	449	617	179	-638	-93	340
Depreciation and amortisation	5	8	10	9	9	10
Profit from equity accounted investees	-4	-4	0	0	0	0
Change in fair value of investment properties	-343	-695	-118	890	353	-134
Net finance expenses	98	195	184	143	60	66
Tax result	93	174	50	-86	0	60
Others	2	3	3	2	0	0
Operating cash flow	300	299	308	320	329	340
Change in working capital	-29	-45	-61	-38	-7	3
Tax paid	-28	-37	-31	-32	-42	-43
Net cash flow from operating activities	242	217	216	249	280	300
Investment in fixed/intangible assets	-7	-8	-5	-3	-16	-17
Net property investments / disposals	-492	-465	-242	51	202	-218
Acquisition of subsidiaries	547	333	-4	0	0	0
Proceeds from investments in financial assets	-439	-58	82	99	-13	-14
Cash flow from investing	-392	-198	-168	148	173	-249
Debt financing, net	559	-71	-486	496	-202	-21
Equity financing, net	0	17	0	0	0	0
Share buyback	0	-272	0	0	0	0
Dividend paid	-71	-54	-56	0	0	-136
Other financing activities	214	-109	-28	-40	-74	-42
Net paid financing expenses	-51	-50	-47	-49	-60	-66
Cash flow from financing	651	-537	-618	407	-336	-265
Fx effects	-3	2	-1	0	0	0
Net cash flows	498	-517	-571	804	117	-214
Cash, start of the year	914	1,412	895	325	1,129	1,246
Cash, end of the year	1,412	895	325	1,129	1,246	1,032
AEBITDA / share (€)	1.74	1.69	1.75	1.81	1.87	1.94
FFO 1	182	186	192	184	181	186
FFOPS 1 (€)	1.07	1.11	1.14	1.07	1.05	1.08
Y-Y Growth						
Operating cash flow	-2.9%	-10.4%	-0.4%	15.4%	12.1%	7.2%
Adjusted EBITDA / share	-1.6%	-2.8%	3.2%	3.7%	3.3%	3.5%
FFO 1	1.8%	2.3%	3.2%	-4.3%	-1.4%	2.7%
FFOPS 1	0.3%	3.6%	2.8%	-6.8%	-1.4%	2.7%

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Anschrift:

First Berlin Equity Research GmbH
Friedrichstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B

UST-Id.: 251601797

Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

First Berlin Equity Research GmbH

Authored by: Ellis Acklin, Senior Analyst

All publications of the last 12 months were authored by Ellis Acklin.

Company responsible for preparation: First Berlin Equity Research GmbH, Friedrichstraße 69, 10117 Berlin

The production of this recommendation was completed on 17 May 2024 at 11:46

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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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.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	21 January 2013	€4.37	Buy	€14.30
2...52	↓	↓	↓	↓
53	17 November 2022	€10.51	Buy	€16.80
54	21 March 2023	€7.32	Buy	€12.80
55	21 May 2023	€7.18	Buy	€12.80
56	17 August 2023	€7.32	Buy	€12.80
57	16 November 2023	€9.11	Buy	€12.60
58	18 March 2024	€8.98	Buy	€12.50
59	12 April 2024	€10.35	Buy	€12.50
60	15 April 2024	€10.64	Buy	€12.90
61	Today	€11.56	Buy	€13.70

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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