

GRAND CITY Properties S.A.

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

2017
 Results

RATING
BUY

PRICE TARGET
€ 27.00

Return Potential 41.0%
 Risk Rating Medium

QUALITY OF OPERATIONS DRIVES YEAR END RESULTS

Full year reporting confirms our view that Grand City Properties is well positioned to prosper in the late cycle residential market. Full year results showed solid top line and earnings growth. Net rent rose 15% Y/Y to €328m and FFO 1 increased 11% Y/Y to €178m. Growth was chiefly driven by operational improvements, while portfolio expansion included the first units acquired in London. Management guide for FFOPS 1 of €1.19 - €1.22 this year spurred by >3% like-for-like rental growth and opportunistic portfolio expansion. Our updated valuation model yields a price target of €27 (old: €26). We reiterate our Buy rating

Time to acknowledge operational strengths We framed the solid prospects for Grand City (GCP) in our note of 13 March and see no contrary evidence in the 2017 results. FFOPS 1 grew 7% on the prior year figure equal to a 5.8% yield while EPRA NAVPS (including perpetual notes) climbed 23% Y/Y. The company plans to pay a €0.73 (2016: €0.68; +7%) dividend to shareholders corresponding to a 3.8% yield. In our view, GCP is well built to weather the late stages of the residential cycle and will continue to deliver solid operational performance. The company boasts a robust financial structure with: (1) YE17 cash and liquid assets of €402m; (2) boosted by Q1/18 corporate bond issuances totalling some €840m; (3) a debt profile that features 70% in corporate bonds; and (4) healthy balance sheet metrics including a 36% LTV and 51% equity ratio. We see good growth prospects for the company this year (FBe: FFOPS +7%, NAVPS +14%), driven chiefly by operational upside combined with opportunistic external growth. Management hinted on the conference call following the results at a pipeline of some €1bn and is keeping more of pan-European view as evidenced by the recent inroads into London market (see overleaf). (p.t.o.)

COMPANY PROFILE

Grand City Properties is a specialist real estate company focused on investing in and managing value-add opportunities in the German real estate market. The overarching strategy is to improve the portfolio through targeted modernisation and intensive tenant management and thus create value by subsequently raising occupancy and rental levels.

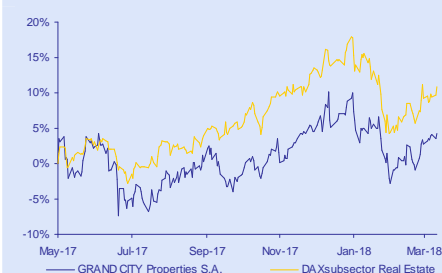
MARKET DATA

As of 20 Mar 2018

| | |
|-------------------------|-----------------|
| Closing Price | € 19.15 |
| Shares outstanding | 164.79m |
| Market Capitalisation | € 3155.73m |
| 52-week Range | € 16.75 / 20.23 |
| Avg. Volume (12 Months) | 300,214 |

| Multiples | 2017 | 2018E | 2019E |
|-------------|------|-------|-------|
| P/FFO I | 17.2 | 16.2 | 15.4 |
| P/EPRA NAV | 0.8 | 0.7 | 0.7 |
| FFO I/Yield | 5.8% | 6.2% | 6.5% |
| Div. Yield | 3.8% | 4.0% | 4.5% |

STOCK OVERVIEW



FINANCIAL HISTORY & PROJECTIONS

| | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|----------------------------|---------|---------|---------|---------|---------|---------|
| Rental income (€m) | 333.50 | 435.67 | 494.89 | 545.53 | 580.86 | 605.70 |
| Y/Y growth | 53.8% | 30.6% | 13.6% | 10.2% | 6.5% | 4.3% |
| Adj. EBITDA (€m) | 177.27 | 224.73 | 247.98 | 279.31 | 297.40 | 309.51 |
| Net income | 393.6 | 653.1 | 639.1 | 585.4 | 548.5 | 479.2 |
| EPS (diluted) (€) | 2.35 | 3.25 | 3.06 | 2.85 | 2.67 | 2.33 |
| EPRA NAV ¹ (€m) | 2402.09 | 3208.45 | 3993.06 | 4475.53 | 4904.35 | 5237.84 |
| DPS (€) | 0.25 | 0.68 | 0.73 | 0.77 | 0.86 | 0.88 |
| FFO I (€m) | 128.04 | 160.12 | 178.01 | 196.27 | 209.97 | 220.37 |
| FFOPS I | 1.01 | 1.05 | 1.12 | 1.19 | 1.24 | 1.27 |
| Liquid assets (€m) | 388.93 | 630.27 | 401.48 | 888.98 | 907.53 | 936.75 |

¹ including perpetual notes

RISKS

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

COMPANY DATA

As of 31 Dec 2017

| | |
|-----------------------|-------------|
| Liquid Assets | € 402.00m |
| Current Assets | € 795.90m |
| EPRA NAV ¹ | € 3,993.10m |
| Total Assets | € 708.30m |
| Current Liabilities | € 370.70m |
| Total Equity | € 3,849.70m |

¹ including perpetual notes

SHAREHOLDERS

| | |
|---------------|-------|
| Edolaxia Ltd. | 38.0% |
| Edge Point | 5.1% |
| Free Float | 56.9% |



REVIEW OF FULL YEAR RESULTS

Table 1: Full year results vs forecasts

| in €m | 2017 | 2017E | delta | 2016 | delta | Q4/17 | Q4/16 | delta |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Rental and other income | 495 | 483 | 2.5% | 436 | 13.5% | 128 | 109 | 17.4% |
| Net rent | 328 | 319 | 2.7% | 285 | 15.1% | 86 | 75 | 14.7% |
| Adjusted EBITDA | 248 | 246 | 0.8% | 225 | 10.2% | 64 | 60 | 6.7% |
| Margin | 50.1% | 50.9% | - | 51.6% | - | 50.0% | 55.0% | - |
| FFO I | 178 | 176 | 1.1% | 160 | 11.2% | 48 | 43 | 11.4% |
| FFOPS I ¹ (€) | 1.12 | 1.11 | 1.1% | 1.05 | 6.7% | 0.29 | 0.28 | 3.6% |

¹ after perpetual note attribution

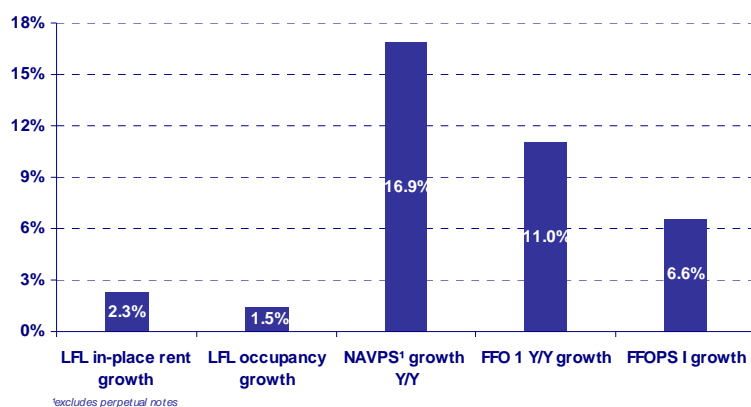
Source: First Berlin Equity Research; Grand City Properties

GCP reported rental and operating income (RI) of €495m for the full year, which was 2.5% above our estimate (FBe: €483m). The top line grew 14% Y/Y. Net rental income rose 15% Y/Y to €328m. The increase can be traced to the larger portfolio and operational improvements in existing properties through rent and occupancy increases. LFL rental income rose 3.5% including 1.2% LFL occupancy and 2.3% LFL in-place rent. On a quarterly basis, RI climbed to €128m, whereas net rent reached €86m versus €75m in the prior year period. The portfolio contains 87k units as of December compared to 83k at the end of 2016. This includes initial exposure to London (2% of portfolio) after management was able to acquire 300 centrally located units in the Fulham and Islington districts from a cash-starved contractor. Although management continue to assess opportunities in other western cities, we expect GCP to remain focused on its home turf.

The capital gains, property revaluations and other income line item totalled €616m for the full year (2016: €598m) and €235m in the fourth quarter (Q4/16: €134m). The strong development relates to GCP's value-add business model: acquiring properties with strong value upside and repositioning the assets to unlock this potential.

Adjusted EBITDA, which reflects recurring operational profit excluding capital gains and revaluation effects, rose 10% in 2017 to €248m (2016: €225m; FBe: €246m). We note that growth in rental income was slightly offset by one-off expenses related to GCP's H1/17 uplisting into the Prime Standard of the Frankfurt Stock Exchange.

Figure 1: Operating performance as of December 2017

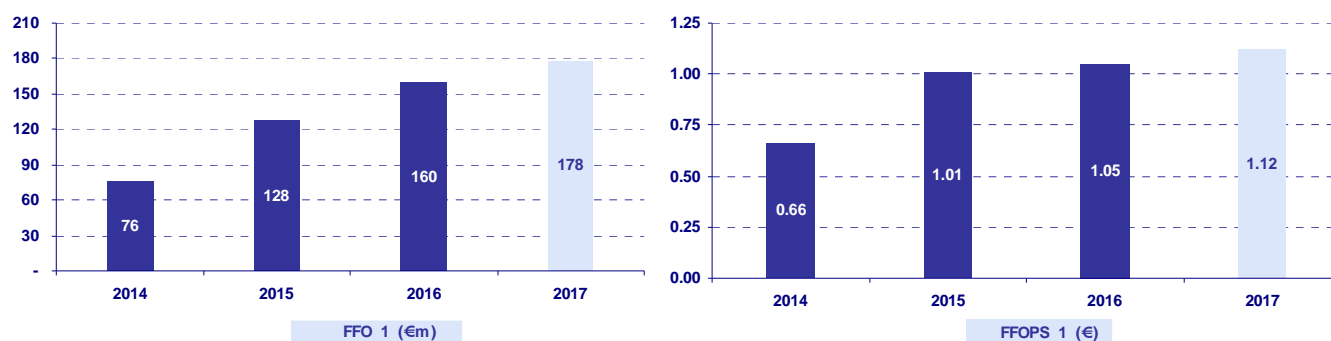


Source: First Berlin Equity Research; Grand City Properties



Financial expenses increased to €40m compared to €36m in the prior year, due to the ongoing optimisation of the financial structure. Net income (NI) contracted some 2% Y/Y to €639m (2016: €653m) owing to non-recurring items, such as other financial results of €-43m (2016: €-11m). These included one-off costs related to the €371m repurchase of the higher coupon Series D bonds and other one-time financial charges. Fourth quarter net income totalled €234m vs €158m in 2016.

Figure 2: FFO 1 and FFOPS 1 developments



Source: First Berlin Equity Research; Grand City Properties

FFO 1, the key industry indicator for recurring cash flow, increased 11.2% during 2017 to €178m compared to €160m in the prior year, thanks to strong adjusted EBITDA growth and further optimisation of financing costs. FFOPS 1 grew 6.7% to €1.12 equal to a 5.8% yield. FFOPS 1 growth was achieved despite the dilutive effects of the June cap hike. On a quarterly basis, FFO I increased some 12% Y/Y to €48m (Q4/16: €43m) equal to €0.29 FFOPS 1. GCP's maintenance and value-add CapEx amounted to €67m for the year. Accounting for CapEx spend, adjusted FFO (AFFO) totalled €111m (2016: €104m).

Table 2: FFOPS 1 adjusted for perpetual note attribution

| €m | 2017 | 2016 | Delta |
|---|-------------|-------------|------------|
| FFO 1 | 178 | 160 | 11% |
| Adjustment for accrued perpetual note attribution | -24 | -21 | - |
| FFO 1 after perpetual note attribution | 154 | 140 | 10% |
| Weighted avg basic share count ('000) | 159,605 | 152,836 | |
| FFOPS 1 after perpetual note attribution | 0.96 | 0.92 | 4% |

Source: First Berlin Equity Research; Grand City Properties



EPRA NAV +31% Y/Y; 2014–2017 44% CAGR As of December, EPRA NAV totalled €3.3bn (€20.2 / share, +23% Y/Y) compared to €2.5bn at year end 2016 (€16.4 /share). Including the perpetual notes, which are classified as equity under IFRS, this KPI stood at €4.0bn or €24.2 / share (+17% Y/Y). NAVPS corresponds to a 37% CAGR for the period 2014–2017. The good performance stems from the €636m NI result and the €198m equity raise last June.

Table 3: Financial highlights

| in €m | 2017 | 2016 | Delta |
|----------------------------------|-------|-------|-------|
| Cash & liquid assets | 402 | 632 | -36% |
| Investment property ¹ | 6,388 | 4,795 | 33% |
| Total equity | 3,850 | 3,065 | 26% |
| EPRA NAV incl. hybrid notes | 3,993 | 3,208 | 24% |
| EPRA NAV | 3,327 | 2,541 | 31% |
| Interest bearing debt | 941 | 937 | 0% |
| Straight bonds | 1,423 | 1,050 | 36% |
| Convertible bond (series F) | 432 | 427 | 1% |
| Loan-to-Value (LTV) | 36% | 35% | - |
| Equity ratio | 51% | 50% | - |

¹ including inventories-trading property

Source: First Berlin Equity Research; Company

Balance sheet metrics remain steady GCP reported cash and liquid assets of €402m for the period ended 31 December compared to €632m at the end of 2016, while net debt stood at €2.4bn vs €1.8bn at the end of 2016. The debt structure featured an LTV of 36%, which is up slightly compared to end 2016 (35%), resulting from the net increase in straight bonds. This remains well below the 45% internal limit set by the Management Board. Coverage ratios were solid with a debt service coverage ratio (DSCR) and an interest coverage ratio (ICR) of 4.8x and 6.2x respectively at the end of 2017. In our view, ample cash and an attractive debt structure positions the company well for opportunistic growth. In 2017, the company extended its debt maturity curve by 2.5 years to 8.5. The debt structure now features a 1.6% average cost of debt.

Latest capital market activity Management have been very active in optimising the debt portfolio in recent years (Table 4), which is reflected in improving financing costs. The company also boasts BBB+ / Baa1 corporate ratings from S&P and Moody's respectively.

Table 4: Capital market activity since January 2017

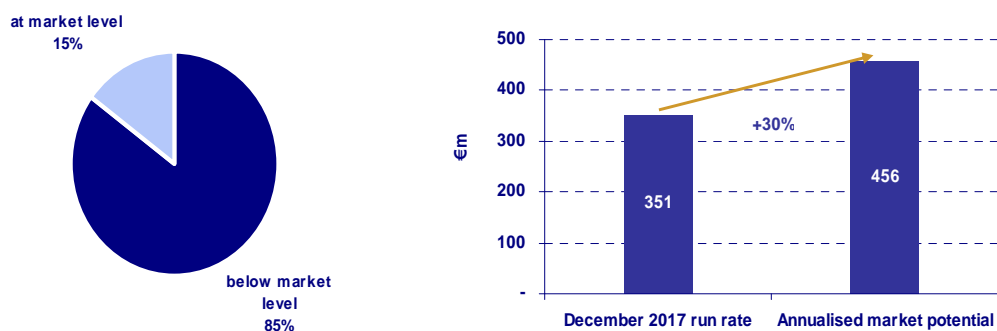
| | |
|--------|--|
| Feb-18 | Tap issuance of Series H, 2032 straight bonds of €145m to an aggregate nominal amount of €255m |
| Feb-18 | Issuance of Series K, 2026 straight bonds of CHF125m under the EMTN, currency hedge, coupon of 0.96% p.a. |
| Feb-18 | Issuance of Series J, 2027 straight bonds of €500m under the EMTN, coupon of 1.5% p.a. and... |
| Feb-18 | Repayment of €170m of Series F Convertible bonds and €41m of Series D (3.5 year maturity) extending the average maturity |
| Feb-18 | Issuance of Series I, 2028 straight bondsHKD900m under EMTN, currency hedge, effective € coupon of 1% p.a. until 2023 |
| Oct-17 | Issuance of Series H, 2032 straight bonds of €110m under the EMTN, coupon of 2% p.a |
| Jul-17 | Issuance of Series G 9 year straight bonds €600m under the EMTN programme, coupon of 1.375% p.a |
| Jul-17 | Established €1.5bn Euro Medium Term Note (EMTN) Programme |
| Jul-17 | Equity capital increase of €198m at €18 per share |

Source: First Berlin Equity Research, Grand City Properties



Plenty of operational upside to spur growth We believe the residential portfolio contains further operational upside (30% net rent as of Q4/17) through rent and vacancy optimisation. We expect this to be the primary earnings and value driver over the near-term, given our assumption of modest external growth (9,000 units over the next two years). Management commented on the call that it will take 7-8 years to extract this potential of which up to 75% will translate into FFO 1.

Figure 3: In place rent vs market levels; embedded net rental income upside



Source: First Berlin Equity Research; Company

The company is providing annual guidance for the first time in place of its traditional monthly run rates, due to the stability of external growth. Management guide for FFO 1 of €196m - €201m and FFOPS 1 of €1.19 - €1.22 based on IEL rent growth north of 3% in 2018. This would correspond to a dividend of €0.77 - €0.79 based on the present 65% payout policy. We expect external growth to remain opportunistic and assume a rate similar to the prior year. Our new FFO 1 target rises more slowly, due to the issuance of the corporate bonds in February.

Table 5: Changes to forecasts

| in €m | 2018E | | | 2019E | | |
|---------------------------|-------|-------|----------|-------|-------|----------|
| | Old | New | % change | Old | New | % change |
| Rental & operating income | 526 | 544 | 3.5% | 564 | 580 | 2.8% |
| Adjusted EBITDA | 268 | 278 | 3.9% | 286 | 296 | 3.7% |
| margin | 51.0% | 51.2% | - | 50.7% | 51.2% | - |
| FFO I | 193 | 196 | 1.7% | 208 | 212 | 1.8% |
| FFOPS I ¹ (€) | 1.16 | 1.19 | 1.7% | 1.23 | 1.26 | 1.8% |

¹ after perpetual note attribution

Source: First Berlin Equity Research



VALUATION MODEL

Our discounted EPRA NAV valuation model yields a price target of €28. This figure is conservatively based on EPRA NAV excluding perpetual notes. Our PT corresponds to a total return of 41% including the dividend yield and incorporates updated forecasts and the higher than expected year end EPRA NAV. The Grand City share remains attractive. We attribute much of the lacklustre share price performance to overblown concerns about whether a cliff awaits at the end of the residential cycle. As we recently wrote, there is plenty of evidence that underlying fundamentals in the property market are better than investors think. We believe GCP will continue its current growth trajectory this year (FBe: FFOPS +7%, NAVPS +14%).

| All figures in EUR '000 | 2018E | 2019E | 2020E |
|--|----------------|----------------|----------------|
| Shareholders' equity (excl. perpetual notes) | 3,230,464 | 3,596,539 | 3,880,799 |
| Derivative financial instruments | 5,885 | 5,885 | 5,885 |
| Deferred tax liabilities | 573,307 | 636,056 | 685,281 |
| EPRA NAV | 3,809,657 | 4,238,481 | 4,571,966 |
| EPRA NAV per share (€) | 26.9 | 28.7 | 29.7 |
| FFO I | 196,274 | 209,967 | 220,371 |
| Revaluation results | 460,209 | 392,180 | 307,657 |
| New Equity | - | - | - |
| Total return | 656,483 | 602,147 | 528,028 |

| | | | |
|-----------------------------------|--------------|--------------|-------------|
| EPRA NAV | 3,809,657 | 4,238,481 | 4,571,966 |
| Return on NAV | 19.7% | 15.8% | 12.5% |
| Cost of equity | 5.0% | 5.0% | 5.0% |
| Spread (percentage points) | 14.8% | 10.9% | 7.5% |
| Value creation | 563,025 | 460,037 | 343,169 |
| NPV | 550,014 | 436,103 | 315,687 |
| Dividends paid | 115,708 | 127,578 | 146,977 |
| Present value of dividends paid | 113,035 | 120,941 | 135,206 |

| Fair value calculation | |
|--|------------------|
| PV of total value created | 1,301,804 |
| NAV (excl. Perpetual notes) (YE: 2017) | 3,183,791 |
| Equity value | 4,485,595 |
| PV of dividends | 369,182 |
| Fair value | 4,854,777 |
| Number of shares (fully diluted) | 176,815 |
| Fair value per share (€) | 27.00 |

| Valuation metrics | 2018E | 2019E | 2020E |
|--------------------------------------|--------------|--------------|--------------|
| Price target (€) | 27.00 | 27.00 | 27.00 |
| Share price (€) | 19.15 | 19.15 | 19.15 |
| Return potential | 41.0% | 41.0% | 41.0% |
| Dividend yield | 4.0% | 4.5% | 4.6% |
| Total return potential | 45.0% | 45.5% | 45.6% |
| NAV discount / premium (share price) | -20.9% | -28.8% | -33.2% |
| FFOPS 1 yield | 6.2% | 6.5% | 6.6% |



INCOME STATEMENT

| All figures in EURm | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|--|------------|------------|------------|------------|------------|------------|
| Net rent | 220 | 285 | 328 | 361 | 386 | 404 |
| Rental and operating income | 333 | 436 | 495 | 546 | 581 | 606 |
| Revenue from sale of buildings | 0 | 7 | 2 | 0 | 0 | 0 |
| Revenue | 333 | 443 | 497 | 546 | 581 | 606 |
| Capital gains, property revaluations & other | 311 | 598 | 616 | 460 | 392 | 308 |
| Result from equity-accounted investees | 0 | 1 | 6 | 8 | 9 | 0 |
| Property expenses | -152 | -204 | -239 | -256 | -273 | -284 |
| Cost of buildings sold | 0 | -5 | -1 | 0 | 0 | 0 |
| Administration expenses | -7 | -10 | -11 | -12 | -13 | -14 |
| Operating income (EBIT) | 486 | 823 | 868 | 745 | 697 | 615 |
| Finance expenses | -26 | -36 | -40 | -50 | -52 | -52 |
| Other financial results | 0 | -11 | -43 | -5 | 0 | 0 |
| Pre-tax income (EBT) | 460 | 775 | 786 | 691 | 645 | 563 |
| Tax and deferred tax expenses | -66 | -122 | -146 | -105 | -96 | -84 |
| Minority interests | -35 | -88 | -80 | -59 | -55 | -48 |
| Hybrid note investors | -15 | -23 | -24 | -23 | -22 | -19 |
| Net income | 344 | 542 | 535 | 503 | 472 | 412 |
| Basic EPS (€) | 2.71 | 3.56 | 3.35 | 3.04 | 2.80 | 2.37 |
| Diluted EPS (€) | 2.35 | 3.25 | 3.06 | 2.85 | 2.67 | 2.33 |
| Adjusted EBITDA | 177 | 225 | 248 | 279 | 297 | 310 |
| Ratios | | | | | | |
| Adjusted EBITDA margin | 53.2% | 51.6% | 50.1% | 51.2% | 51.2% | 51.1% |
| Tax rate | 12.8% | 11.9% | -11.3% | 11.3% | 11.3% | 11.3% |
| Expenses as % of revenues | | | | | | |
| Property expenses | 45.4% | 46.8% | 48.3% | 47.0% | 47.0% | 47.0% |
| Administration expenses | 2.1% | 2.2% | 2.2% | 2.3% | 2.3% | 2.3% |
| Y-Y Growth | | | | | | |
| Rental and operating income | 53.8% | 30.6% | 13.6% | 10.2% | 6.5% | 4.3% |
| Total revenues | 44.1% | 32.7% | 12.2% | 9.8% | 6.5% | 4.3% |
| Operating income | 41.9% | 69.3% | 5.5% | -14.2% | -6.5% | -11.7% |
| Adjusted EBITDA | 58.3% | 26.8% | 10.3% | 12.6% | 6.5% | 4.1% |
| Net income/ loss | 67.3% | 57.7% | -1.5% | -5.8% | -6.3% | -12.6% |
| Funds from Operations (FFO) | | | | | | |
| Operating profit | 486 | 823 | 868 | 745 | 697 | 615 |
| Depreciation and amortisation | 2 | 2 | 2 | 2 | 2 | 2 |
| EBITDA | 488 | 825 | 871 | 747 | 699 | 617 |
| Capital gains, property revaluations and other | -311 | -598 | -616 | -460 | -392 | -308 |
| Result from disposal of trading properties | 0 | -2 | 0 | 0 | 0 | 0 |
| Others | 1 | 0 | -6 | -8 | -9 | 0 |
| Adjusted EBITDA | 177 | 225 | 248 | 279 | 297 | 310 |
| Financial expense | -26 | -36 | -40 | -50 | -52 | -52 |
| Tax | -23 | -27 | -28 | -32 | -34 | -35 |
| Minorities | -1 | -1 | -2 | -2 | -2 | -2 |
| FFO I | 128 | 160 | 178 | 196 | 210 | 220 |
| CapEx | -34 | -56 | -67 | -84 | -91 | -97 |
| AFFO | 94 | 104 | 111 | 112 | 119 | 124 |



BALANCE SHEET

| All figures in EURm | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Assets | | | | | | |
| Current assets, total | 627 | 1,028 | 796 | 1,330 | 1,369 | 1,412 |
| Cash and cash equivalents | 236 | 449 | 312 | 800 | 818 | 847 |
| Traded securities at fair value though P&L | 153 | 181 | 89 | 89 | 89 | 89 |
| Trade and other receivables | 226 | 220 | 260 | 299 | 318 | 332 |
| Inventories - Trading property | 12 | 27 | 12 | 14 | 15 | 16 |
| Assets held for sale | 0 | 150 | 123 | 128 | 128 | 128 |
| Non-current assets, total | 4,062 | 5,126 | 6,712 | 7,421 | 7,911 | 8,290 |
| Equipment and intangible assets | 9 | 16 | 20 | 22 | 24 | 26 |
| Investment property | 3,846 | 4,823 | 6,414 | 7,105 | 7,577 | 7,945 |
| Equity accounted investees | 0 | 118 | 37 | 45 | 54 | 54 |
| Other LT assets | 195 | 155 | 214 | 218 | 223 | 227 |
| Deferred tax assets | 11 | 15 | 28 | 31 | 34 | 37 |
| Total assets | 4,689 | 6,154 | 7,508 | 8,751 | 9,280 | 9,702 |
| Shareholders' equity & debt | | | | | | |
| Current liabilities, total | 277 | 338 | 371 | 415 | 438 | 455 |
| Short-term debt | 55 | 29 | 62 | 62 | 62 | 62 |
| Trade and other payables | 190 | 252 | 267 | 309 | 329 | 343 |
| Other current liabilities | 32 | 58 | 42 | 44 | 47 | 50 |
| Long-term liabilities, total | 2,239 | 2,750 | 3,288 | 4,016 | 4,102 | 4,174 |
| Long-term debt | 792 | 897 | 919 | 925 | 925 | 925 |
| Convertible and straight bonds | 1,168 | 1,478 | 1,810 | 2,456 | 2,476 | 2,496 |
| Deferred taxes | 239 | 326 | 500 | 573 | 636 | 685 |
| Other LT liabilities | 40 | 50 | 59 | 62 | 65 | 68 |
| Minority interests | 142 | 197 | 364 | 423 | 478 | 526 |
| Shareholders' equity | 2,030 | 2,868 | 3,485 | 3,896 | 4,262 | 4,547 |
| Total consolidated equity and debt | 4,689 | 6,154 | 7,508 | 8,751 | 9,280 | 9,702 |
| Ratios | | | | | | |
| Current ratio (x) | 2.26 | 3.04 | 2.15 | 3.20 | 3.12 | 3.10 |
| Equity ratio | 46.3% | 49.8% | 51.3% | 49.4% | 51.1% | 52.3% |
| EPRA NAV ¹ (€m) | 2,402 | 3,208 | 3,993 | 4,476 | 4,904 | 5,238 |
| Net debt (€m) | 1,626 | 1,783 | 2,393 | 2,554 | 2,556 | 2,547 |
| Financial leverage | 80.1% | 62.2% | 68.7% | 65.6% | 60.0% | 56.0% |
| Loan-to-value (LTV) | 41.9% | 34.9% | 36.4% | 35.1% | 32.9% | 31.3% |
| Return on equity (ROE) | 18.1% | 21.3% | 16.6% | 13.6% | 11.6% | 9.4% |



CASH FLOW STATEMENT

| All figures in EURm | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---------------|-------------|-------------|-------------|-------------|-------------|
| Net income | 394 | 653 | 639 | 585 | 549 | 479 |
| Depreciation and amortisation | 2 | 2 | 2 | 2 | 2 | 2 |
| Profit from equity accounted investees | 0 | -1 | -6 | -8 | -9 | 0 |
| Change in fair value of investment properties | -311 | -598 | -616 | -460 | -392 | -308 |
| Net finance expenses | 26 | 47 | 83 | 55 | 52 | 52 |
| Tax result | 66 | 122 | 146 | 105 | 96 | 84 |
| Others | 1 | 1 | 1 | 0 | 0 | 0 |
| Operating cash flow | 177 | 227 | 248 | 279 | 297 | 310 |
| Inventories - trading properties | -1 | 2 | -6 | -7 | -1 | -1 |
| Trade & other receivables | -25 | -6 | -39 | -39 | -19 | -14 |
| Trade & other payables | 20 | 3 | 19 | 42 | 20 | 14 |
| Provisions for other liabilities | 5 | -6 | 3 | 2 | 2 | 2 |
| Tax paid | -19 | -19 | -23 | -32 | -34 | -35 |
| Net cash flow from operating activities | 157 | 201 | 202 | 246 | 266 | 277 |
| Investment in fixed/intangible assets | -4 | -3 | -6 | -4 | -4 | -4 |
| Investments & acquisitions of investment property | -406 | -476 | -374 | -231 | -80 | -60 |
| Acquisition of subsidiaries | -446 | -111 | -324 | 0 | 0 | 0 |
| Proceeds from investments in financial assets | -359 | 33 | 95 | -4 | -4 | -4 |
| Cash flow from investing | -1,215 | -557 | -608 | -240 | -88 | -69 |
| Debt financing, net | 440 | 487 | 597 | 652 | 20 | 20 |
| Equity financing, net | 640 | 171 | 176 | 0 | 0 | 0 |
| Other financing activities | -24 | -44 | -457 | -121 | -128 | -147 |
| Net paid financing expenses | -33 | -46 | -47 | -50 | -52 | -52 |
| Cash flow from financing | 1,023 | 569 | 269 | 481 | -159 | -178 |
| Net cash flows | -34 | 213 | -137 | 487 | 19 | 29 |
| Cash, start of the year | 270 | 236 | 449 | 312 | 800 | 818 |
| Cash, end of the year | 236 | 449 | 312 | 800 | 818 | 847 |
| Adjusted EBITDA / share (€) | 1.27 | 1.46 | 1.50 | 1.68 | 1.74 | 1.76 |
| FFO I | 128 | 160 | 178 | 196 | 210 | 220 |
| FFOPS I (€) | 1.01 | 1.05 | 1.12 | 1.19 | 1.24 | 1.27 |
| Y-Y Growth | | | | | | |
| Operating cash flow | 38.3% | 27.8% | 0.5% | 21.5% | 8.1% | 4.1% |
| Adjusted EBITDA / share | 34.5% | 15.0% | 3.0% | 11.5% | 3.7% | 1.0% |
| FFO I | 68.2% | 25.1% | 11.2% | 10.3% | 7.0% | 5.0% |
| FFOPS I | 52.8% | 3.9% | 6.5% | 6.3% | 5.0% | 2.0% |

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

| Report No.: | Date of publication | Previous day closing price | Recommendation | Price target |
|----------------|---------------------|----------------------------|----------------|--------------|
| Initial Report | 21 January 2013 | €4.37 | Buy | €14.30 |
| 2...22 | ↓ | ↓ | ↓ | ↓ |
| 23 | 7 September 2017 | €18.27 | Buy | €26.00 |
| 24 | 20 November 2017 | €18.74 | Buy | €26.00 |
| 25 | 13 March 2018 | €18.95 | Buy | €26.00 |
| 26 | Today | €19.15 | Buy | €27.00 |

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