

Grand City Properties S.A.

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

Update

RATING
BUY

PRICE TARGET
€ 15.10

Return Potential 19.5%
 Risk Rating Medium

PROPERTY TOUR & EPRA 2024 CONFERENCE

We attended the EPRA 2024 Conference in Berlin to take the pulse of the property sector. Attendance was good, and surprisingly included several stakeholders from far flung corners of the globe. Compared to last year, the mood was much more upbeat with most participants optimistic that the worst of the downcycle is over. During the event we had a chance to meet with GCP brass and also get a first-hand look at some of Grand City's local residential properties. The tour showcased their quality and locations, as well as the landlord's strategy for repositioning underperforming assets to unlock embedded upside. The event left a good impression and reinforced our view that GCP will emerge a long-term winner as we progress through the cycle. We remain Buy-rated on GCP with a €15.1 TP (old: €14.4) after adjusting the risk free rate in our model to track German 10 year bonds.

GCP property tour highlights The tour included a small sample of residential properties in both East and West Berlin showcasing highly coveted addresses in the central districts Mitte, Friedrichshain, and Neukölln. Our first stop was Köpenicker Str. 55 in Mitte. GCP bought the *Plattenbau* (pre-fab building) in 2015, revitalised the dated premises, and converted it into 115 micro-flats (20-40 m²), while also adding attractive social areas, including a rear garden, for residents. The concept targets young professionals and has resulted in full occupancy with lengthy waiting lists. Short-term leases for the furnished flats mean the landlord can adjust rents towards rising market levels with tenant turnover. Most leases run 3 to 12 months. We also stopped at a Neukölln property. Weserstraße is arguably the district's most vibrant and desirable address. This means tenants rarely move out and applications quickly top 200 when they do. Consequently, GCP noted the property's reversionary potential is still north of 80%. The tour wrapped up at the Precise Tale hotel. Located a stone's throw away from Potsdamer Platz, the 5-star hotel also offers long-stay apartments, which are... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023	2024E	2025E
Rental income (€m)	535.4	524.6	582.5	607.7	597.2	618.0
Y/Y growth	-4.4%	-2.0%	11.0%	4.3%	-1.7%	3.5%
Adj. EBITDA (€m)	299.8	298.6	308.1	319.6	332.6	346.8
Net income (€m)	362.2	523.5	129.2	-547.5	-84.2	198.2
EPRA NTA (€m)	4,566.4	5,020.2	4,655.6	4,013.8	3,899.9	3,973.9
EPRA NTAPS (€)	26.5	30.4	27.0	23.2	22.6	23.0
DPS (€)	0.82	0.83	0.00	0.00	0.80	0.80
FFO 1 (€m)	182.2	186.3	192.2	183.9	184.3	183.4
FFOPS 1 (€)	1.07	1.11	1.14	1.07	1.07	1.06
Liquid assets (€m)	1,697.9	1,113.5	436.8	1,253.8	1,642.6	1,435.1

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 23 Sep 2024

Closing Price	€ 12.64
Shares outstanding	176.19m
Market Capitalisation	€ 2,227.04m
52-week Range	€ 7.66 / 12.94
Avg. Volume (12 Months)	163,681

Multiples	2023	2024E	2025E
P/FFO 1	11.9	11.8	11.9
P/NTA	0.5	0.6	0.5
FFO 1 Yield	8.4%	8.4%	8.4%
Div. Yield	0.0%	6.3%	6.3%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2024

Liquid Assets	€ 1,122.4m
Investment Properties	€ 8,369.8m
Total Assets	€ 10,663.5m
Current Liabilities	€ 691.9m
EPRA NTA	€ 3,944.2m
Total Equity	€ 5,090.5m

SHAREHOLDERS

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



. . . in high demand from corporate folks. GCP has roughly 63k apartments in its portfolio, and demand is red-hot throughout Germany. The tour made it quite clear that the landlord controls a stable of well-located resi properties that should drive rental income upside for years to come.

Mood mixed on commercial real estate Folks we spoke with at the conference were decidedly positive regarding residential real estate, whereas the mood for the commercial sector was more mixed with sceptics unconvinced about the future of offices (see Arountown note of 24 September 2024). But in general, most were in agreement that the property sector is indeed turning the corner with signposts recently becoming more visible: (1) initial rate cuts in the EU and by the Fed; (2) decelerating negative property valuations; and (3) improving access to the capital markets after a slew of successful issuances in recent months.

Good time to be a resi landlord It's hardly breaking news that metropolitan populations throughout Germany are swelling. Less understood is that the number of flats being completed is now shrinking. JLL (Jones Lang LaSalle), a property services outfit, recently reported fresh KPIs for German resi that continue to underscore systemic issues for the sector. In Berlin, a total of 15,965 flats were completed in 2023, a 7.8% drop vs the previous year. Meanwhile, Berlin's population grew +0.7% Y/Y to 3.9m in 2023 marking the third highest number of new arrivals (187,971) in the German capital since 1991.

Compounding the issue, building permits were also down 6.3% Y/Y to 15,902, which likely means completions will continue to drop in the coming years. The government wants 20k flats to come online in the capital annually. Not only does this feel unrealistic, it feels grossly insufficient to make even a dent in the supply shortage. The picture is similarly grim throughout Germany with no viable solutions in sight.

This upshot for Grand City is that tenant turnover will likely be low (non-existent) for the time being, and that the landlord will have to capture reversionary upside (now at 24%) embedded in the portfolio with *Mietspiegel* (residential rental index) adjustments and targeted CapEx that also unlocks upside. Germany's acute housing problem is terrible news for urbanites looking for flats to rent, but GCP stands to prosper for years to come with its well-located German and London portfolios.



VALUATION MODEL

We remain Buy-rated on GCP With interest rates starting to come back down, we think sector sentiment will continue to improve evidenced by a much improved mood at the EPRA event vs the prior two years. GCP brass have done yeoman's job in revamping the balance sheet in a tough environment the past quarters, and we expect GCP's operational positives to move back into the spotlight as the landlord continues to unlock portfolio upside. Our DCF model now points to a €15.1 TP (old: €14.4) after factoring in the recent decline in German 10 year bonds into our risk free rate.

Table 1: DCF model

All figures in EURm	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
AEBITDA	333	347	367	388	406	425	443	463
(-) Tax	-45	-47	-50	-52	-55	-57	-60	-62
(=) Net operating cash flow	288	300	318	336	352	367	384	400
(-) Total investments (CapEx and WC)	177	-227	-213	-205	-194	-185	-179	-183
(-) Capital expenditures	202	-219	-202	-194	-185	-176	-170	-173
(-) Working capital	-24	-8	-11	-11	-9	-9	-9	-10
(=) Free cash flows (FCF)	465	73	104	130	157	182	204	218
PV of FCFs	459	69	93	111	128	141	151	153

All figures in EUR '000	WACC	Terminal AEBITDA margin						
		80.3%	80.8%	81.3%	81.8%	82.3%	82.8%	83.3%
PV of FCFs in explicit period	4.3%	24.0	24.5	25.0	25.5	26.1	26.6	27.1
PV of FCFs in terminal period	4.5%	20.1	20.6	21.1	21.5	22.0	22.5	22.9
Enterprise value (EV)	4.7%	16.8	17.2	17.7	18.1	18.5	19.0	19.4
+ Net cash / - net debt	4.9%	14.0	14.4	14.7	15.1	15.5	15.9	16.3
Hybrid capital	5.1%	11.5	11.8	12.2	12.6	12.9	13.3	13.6
Shareholder value	5.3%	9.3	9.6	9.9	10.3	10.6	11.0	11.3
Fair value per share in EUR	5.5%	7.3	7.6	8.0	8.3	8.6	8.9	9.2

	WACC	Terminal growth rate						
		1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%
Cost of equity	4.3%	20.7	22.2	23.8	25.5	27.4	29.5	31.7
Pre-tax cost of debt	4.5%	17.5	18.7	20.1	21.5	23.1	24.8	26.7
Tax rate	4.7%	14.6	15.7	16.9	18.1	19.4	20.9	22.4
After-tax cost of debt	4.9%	12.2	13.1	14.1	15.1	16.3	17.5	18.8
Share of equity capital	5.1%	10.0	10.8	11.6	12.6	13.5	14.6	15.7
Share of debt capital	5.3%	8.0	8.7	9.5	10.3	11.1	12.0	13.0
WACC	5.5%	6.3	6.9	7.6	8.3	9.0	9.8	10.6

*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	418	433
Rental and operating income	535	525	583	608	597	618
Property revaluations & capital gains	343	695	118	-890	-318	135
Result from equity-accounted investees	4	4	0	0	0	0
Property expenses	-226	-218	-266	-279	-256	-262
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	-9
Operating income (EBIT)	640	986	413	-582	4	471
Finance expenses	-53	-46	-47	-57	-59	-73
Other financial results	-46	-149	-137	-86	0	0
Pre-tax income (EBT)	542	791	229	-724	-55	398
Current tax	-31	-39	-39	-41	-42	-44
Deferred tax	-61	-135	-11	127	38	-16
Tax result	-93	-174	-50	86	-4	-60
Minority interests	-54	-69	-25	124	17	-98
Hybrid note investors	-33	-25	-25	-34	-42	-42
Net income	362	524	129	-548	-84	198
Basic EPS (€)	2.13	3.12	0.77	-3.18	-0.49	1.15
AEBITDA	300	299	308	320	333	347
Ratios						
AEBITDA margin (% of net rent)	80.5%	79.7%	77.8%	77.7%	79.5%	80.2%
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%	61.1%	60.5%
Administration expenses	2.9%	3.0%	2.7%	2.7%	2.5%	2.5%
Y-Y Growth						
Rental and operating income	-4.4%	-2.0%	11.0%	4.3%	-1.7%	3.5%
Total revenues	-4.4%	-2.0%	11.0%	4.3%	-1.7%	3.5%
Operating income	-7.6%	54.0%	-58.1%	n.m.	n.m.	11534.9%
Adjusted EBITDA	0.7%	-0.4%	3.2%	3.7%	4.0%	4.3%
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	4	471
Depreciation and amortisation	5	8	10	9	9	9
EBITDA	645	994	423	-572	13	480
Property revaluations & capital gains	-343	-695	-118	890	318	-135
Others	-2	-1	3	2	2	2
Adjusted EBITDA	300	299	308	320	333	347
Financial expense	-53	-46	-47	-57	-59	-73
Tax	-31	-39	-39	-41	-42	-44
Minority & JV contributions	-1	-2	-5	-4	-5	-5
FFO 1 (before perpetuals)	215	211	217	218	227	225
Perpetual note adjustment	-33	-25	-25	-34	-42	-42
FFO 1	182	186	192	184	184	183



BALANCE SHEET

All figures in EURm	2020	2021	2022	2023	2024E	2025E
Current assets, total	2,264	1,679	1,134	1,841	2,135	1,941
Cash and cash equivalents	1,412	895	325	1,129	1,517	1,308
Traded securities at fair value though P&L	286	218	112	125	126	127
Trade and other receivables	395	452	353	391	393	406
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	8,678	9,059
Equipment and intangible assets	27	70	77	64	70	77
Investment property	8,043	9,364	9,550	8,650	8,226	8,579
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	10,814	11,000
Current liabilities, total	427	773	309	654	608	923
Short-term debt	147	455	5	299	270	572
Trade and other payables	209	216	225	254	231	237
Other current liabilities	71	103	79	101	107	114
Long-term liabilities, total	4,884	4,986	4,908	5,034	5,109	4,823
Long-term debt	427	353	319	863	950	1,200
Convertible and straight bonds	3,639	3,642	3,612	3,271	3,286	2,724
Deferred taxes	634	760	789	662	624	640
Other LT liabilities	183	231	189	239	249	259
Minority interests	535	615	666	516	499	597
Shareholders' equity	5,020	5,188	5,249	4,714	4,598	4,658
Total consolidated equity and debt	10,866	11,562	11,131	10,918	10,814	11,000
Ratios						
EPRA NTA* (€m)	4,566	5,020	4,656	4,014	3,900	3,974
EPRA NTAPS* (€)	26.5	30.4	27.0	23.2	22.6	23.0
Net debt (€m)	2,521	3,342	3,506	3,202	2,863	3,061
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	8.6	8.8
Interest cover (x)	5.7	6.4	6.6	5.6	5.6	4.8
Loan-to-value (LTV)	31%	36%	36%	37%	36%	37%
Equity ratio	51%	50%	53%	48%	47%	48%
Return on equity (ROE)	8.1%	10.6%	3.0%	-12.2%	-1.2%	6.4%

* updated to exclude RETT



CASH FLOW STATEMENT

All figures in EURm	2020	2021	2022	2023	2024E	2025E
Net income	449	617	179	-638	-59	338
Depreciation and amortisation	5	8	10	9	9	9
Profit from equity accounted investees	-4	-4	0	0	0	0
Change in fair value of investment properties	-343	-695	-118	890	318	-135
Net finance expenses	98	195	184	143	59	73
Tax result	93	174	50	-86	4	60
Others	2	3	3	2	0	0
Operating cash flow	300	299	308	320	331	345
Change in working capital	-29	-45	-61	-38	-15	2
Tax paid	-28	-37	-31	-32	-42	-44
Net cash flow from operating activities	242	217	216	249	274	303
Investment in fixed/intangible assets	-7	-8	-5	-3	-15	-16
Net property investments / disposals	-492	-465	-242	51	202	-219
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	74	-10
Equity financing, net	0	17	0	0	0	0
Share buyback	0	-272	0	0	0	0
Dividend paid	-71	-54	-56	0	0	-138
Other financing activities	214	-109	-28	-40	-74	-42
Net paid financing expenses	-51	-50	-47	-49	-59	-73
Cash flow from financing	651	-537	-618	407	-59	-263
Fx effects	-3	2	-1	0	0	0
Net cash flows	498	-517	-571	804	388	-209
Cash, start of the year	914	1,412	895	325	1,129	1,517
Cash, end of the year	1,412	895	325	1,129	1,517	1,308
AEBITDA / share (€)	1.74	1.69	1.75	1.81	1.89	1.97
FFO 1	182	186	192	184	184	183
FFOPS 1 (€)	1.07	1.11	1.14	1.07	1.07	1.06
Y-Y Growth						
Operating cash flow	-2.9%	-10.4%	-0.4%	15.4%	9.8%	10.6%
Adjusted EBITDA / share	-1.6%	-2.8%	3.2%	3.7%	4.0%	4.3%
FFO 1	1.8%	2.3%	3.2%	-4.3%	0.2%	-0.5%
FFOPS 1	0.3%	3.6%	2.8%	-6.8%	0.2%	-0.5%

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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:

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...54	↓	↓	↓	↓
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	17 May 2024	€11.56	Buy	€13.70
62	15 August 2024	€11.70	Buy	€14.40
63	Today	€12.64	Buy	€15.10

INVESTMENT HORIZON

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

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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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