

Grand City Properties S.A.

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

Q2 results

RATING
BUY

PRICE TARGET
€ 14.40

Return Potential 23.1%
 Risk Rating Medium

GUIDANCE UP ON THE BACK OF GOOD H1

Q2 reporting again featured a good operating performance led by 3.4% LFL rental growth, while financing costs came in lower than expected. Good market dynamics prompted management to bump up their 2024 outlook, and we have raised our 2024 forecasts to the midpoint of the new FFO 1 guide (€180m to €190m). Post reporting, the landlord also successfully issued its first bond since 2021. The Series Y €500m bond was 7x oversubscribed, and GCP also bought back some €238m in outstanding bonds to lengthen debt maturities and further bolster the balance sheet. With the Fed likely to cut rates in September, it appears GCP has weathered the worst of the storm, and we believe the landlord's revamped balance sheet should pass muster with even jaded investors. We maintain our Buy rating with a €14.4 TP (old: €13.7).

Guidance up on the back of good H1 The tenor of the conference call remained upbeat as GCP brass discussed: (1) a gradually improving transaction market that has paved the way for some €220m in YTD disposals with €100m to be closed in the coming months; (2) the still favourable resi market dynamics; (3) a slowing of the negative valuation momentum vs 2023 after booking a minus 2.0% LFL valuation decline in the June-Quarter (Q2/23: -5.0%); (4) its more robust capital structure, thanks to this summer's bond issuance and buybacks at a 6% discount; plus (5) the lengthened cash runway that now covers debt maturities through YE27 vs YE26 at the end of Q1. The supportive market dynamics, good operational performance, and lower than anticipated financial costs all combined to prompt GCP to up its 2024 guidance (overleaf), which now calls for FFO 1 of €180m to €190m (old: €175m to €85m).

Other call takeaways The landlord noted that 88% of portfolio rents remain below the evolving Mietspiegel, and that reversionary upside is now at 24%. The company plans on having the portfolio revalued again for YE24 reporting but generally sees lower devaluation risks on . . . (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 14 Aug 2024

Closing Price	€ 11.70
Shares outstanding	176.19m
Market Capitalisation	€ 2,061.42m
52-week Range	€ 7.17 / 11.72
Avg. Volume (12 Months)	166,180

Multiples	2023	2024E	2025E
P/FFO 1	11.0	11.0	11.0
P/NTA	0.5	0.5	0.5
FFO 1 Yield	9.1%	9.1%	9.1%
Div. Yield	0.0%	6.8%	6.8%

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%



. . . improving market dynamics. The negative revaluation of €198m (-2% LFL) in Q2 was roughly a third of the prior year comp (minus €539m). Finally, the company will remain a net seller this year but continues to size up the market for buying opportunities. So far, pricing is not quite hitting the acquisition sweetspot, but this may a topic to look forward to next year.

Q2 RESULT HIGHLIGHTS

GCP realised total LFL net rental growth of 3.4% comprising 3.4% in-place rent and 0.0% occupancy increases with the latter KPI gated by the low portfolio vacancy rate. In-place LFL rent contains 2.4% re-letting and 1.0% indexation. The strong performance stems once again from the systemic supply-demand imbalance in key German metropolitan hubs and London.

Table 1: Second quarter vs prior year and FBE

in €m	Q2/24	Q2/24E	Variance	Q2/23	Variance	6M/24	6M/23	Variance
Rental income	149	144	3.9%	159	-6.5%	298	309	-3.6%
Net rent	106	100	6.1%	103	3.4%	212	204	3.7%
Adjusted EBITDA	84	78	7.8%	81	4.5%	166	160	3.8%
margin	79%	78%	-	78%	-	79%	78%	-
FFO 1 (after perpetuals)	48	43	12.7%	47	3.0%	94	94	-0.3%
FFOPS 1 (€) (after perpetuals)	0.28	0.25	12.7%	0.27	3.1%	0.54	0.54	-0.3%

Source: First Berlin Equity Research; Grand City Properties

AEBITDA rose 4.5% Y/Y in the April-to-June period, driven chiefly by the rise in net rent and a compressed operating cost base traced to improving platform efficiency. FFO 1, the key industry indicator for recurring operational cash flow, beat our estimate at €48m and topped the prior year result by 3.0%, despite the higher financing costs from new and existing debt plus perpetual note attribution. FFOPS 1 of €0.28 was also ~3% higher Y/Y.

On a six month basis, the headline KPIs performed on par with Q2 figures. FFO 1 was stable during the January-to-June period, as higher financing costs offset the increases in NRI and AEBITDA in H1/24. FFO 2 tallied €90.7m in H1 on the €160m in disposals completed at ~2% below net book value. This led to a 2% loss over total costs including CapEx of €-3m.

Portfolio devaluations close to expectations Once again, management decided to have the entire portfolio revalued in one go in order to fully capture the latest state of the residential market.

Table 2: Valuation parameter developments

	Unit	6M/24	2023
Rent multiple	x	20.2	20.9
Value	€/m ²	2,092	2,109
Avg. discount rate	%	5.5	5.4
Avg. capitalisation rate	%	4.2	4.1

Source: First Berlin Equity Research; Grand City Properties

The reported €198m reduction in property valuations and capital gains for the period was equal to -2.0% on a LFL basis, excluding CapEx. Strong operational growth (+3.0%) helped buffer the -5.0% yield expansion. Management are cautiously optimistic that the worst of devaluations is in the rear-view mirror and that future yield expansion will be driven more by positive operational momentum than devaluations.



Liability management helps offset negative valuations Despite the portfolio write-downs, the balance sheet featured a stable LTV of 37% (YE23: 37%), or 48% assuming perpetual notes are counted as debt. The net debt / EBITDA and interest coverage (ICR) ratios stood at 9.4x and 6.0x respectively at the end of Q2.

Table 3: Financial highlights

in €m	6M/24	2023	Variance
Cash & liquid assets	1,122	1,230	-9%
Investment property	8,370	8,629	-3%
Unencumbered assets	6,145	6,607	-7%
Unencumbered assets ratio	72%	75%	-
Total equity	5,090	5,230	-3%
EPRA NTA	3,944	4,014	-2%
Loans and borrowings	975	872	12%
Straight & convertible bonds	3,266	3,560	-8%
Loan-to-Value (LTV)	37%	37%	-
Equity ratio	48%	49%	-

Source: First Berlin Equity Research; Grand City Properties

First bond issuance since 2021 In July the residential landlord completed a bond issuance with a nominal value of €500m. The Series Y 2030 bond carries a 4.375% coupon with a 5.5 year tenor. The bond re-establishes Grand City's access to the capital markets after a three year hiatus and is expected to be BBB+ rated by S&P. The issuance was oversubscribed with a strong book of > €3.5bn reflecting more than 7x the issue amount.

Proceeds were used for repayment of short-term debt in accordance with a liability management exercise, which targeted +€1.4bn in bonds with near-term maturities via a parallel tender process. The company was able to buy back bonds with a nominal value of around €238m to help lengthen the debt maturity profile and further bolster its balance sheet.

Table 4: Results of the bond tender

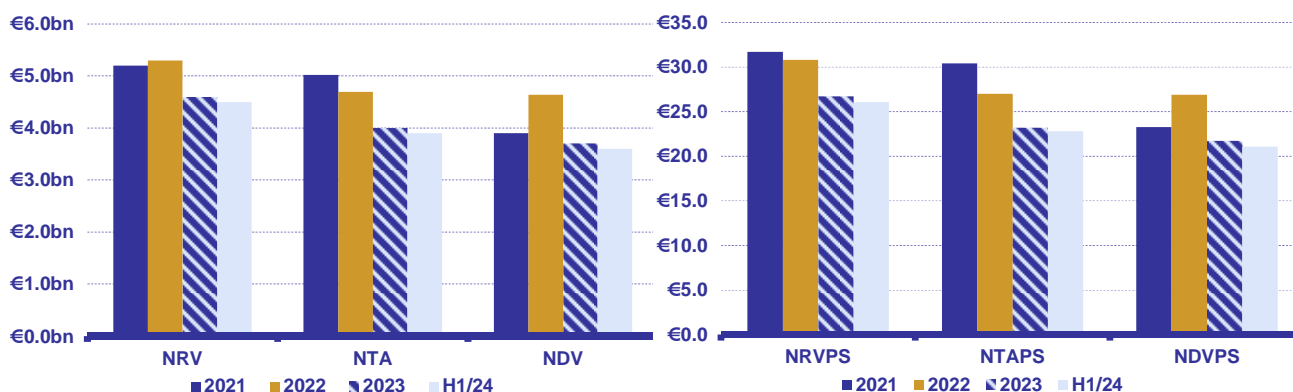
Issue	Maturity date	Amount before tender (€m)	Amount tendered (€m)	Amount post tender (€m)	
Series E	2025	17-Apr-25	194.4	14.5	179.9
Series G	2026	03-Aug-26	577.4	149.5	427.9
Series J	2027	22-Feb-27	667.6	74.3	593.3
Totals			1,439.4	238.3	1,201.1

Source: First Berlin Equity Research; Grand City Properties

Portfolio value at €2,092 / m² (YE23: €2,109 / m²) Once again GCP made no acquisitions in the June-Quarter. In-place rent stood at €8.9 / m² at the end of Q2 vs €8.6 / m² at YE23, while the portfolio vacancy rate remained steady at 3.9%. Annualised net rent tallied €406m at the end of the reporting period. The portfolio currently has rent reversionary potential to €505m (~24%) to be captured over the mid- to long-term, which is up from +17% a year ago.



Figure 1: EPRA BPR reporting



Source: First Berlin Equity Research; Grand City Properties

Table 5: Increased guidance vs FBe

	Unit	Guidance		FBe 2024	2023A
		Initial	Updated		
FFO 1	€m	175 -185	180 -190	184	184
FFOPS 1	€	1.01 - 1.07	1.04 - 1.10	1.07	1.07
DPS *	€	0.76 - 0.80	0.78 - 0.83	0.80	0.00
LFL net rent growth	%	~3.0	>3.0	3.4	3.3
LTV	%	< 45	< 45	36	36

* subject to market conditions and AGM approval

Source: First Berlin Equity Research; Grand City Properties

We have revised FBe to reflect the H1 operational performance and move to the midpoint of the raised guidance. Updated estimates also now factor in the reshuffled corporate debt portfolio as discussed above. The decrease in 2025E FFO 1 is traced to the higher net interest expenses associated with the new Series Y bond vs the buybacks.

Table 6: Changes to FBe and TP

	old	new	revision	upside	dividend yield	total upside
Price target (€)	13.7	14.4	5.1%	23.1%	6.8%	29.9%
	2024E			2025E		
in €m	Old	New	Variance	Old	New	Variance
Net rent (NRI)	421	418	-0.8%	433	433	0.0%
AEBITDA	330	333	0.8%	342	347	1.5%
margin (NRI)	78%	80%	-	79%	80%	-
FFO 1	181	184	1.8%	186	183	-1.4%
Margin	43%	44%	-	43%	42%	-
FFOPS 1 (€)	1.05	1.07	1.8%	1.08	1.07	-1.4%

Source: First Berlin Equity Research estimates



VALUATION MODEL

We think the revamped balance sheet, which now has a cash runway to YE27 following the successful bond placement, should pass muster for even jaded investors. We thus expect GCP's operational positives to move back into the spotlight and stick to our Buy rating. Our TP is now €14.4 (old: €13.7) after fine tuning our forecasts.

Figure 2: 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 FCF's	456	69	93	111	127	140	150	152

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	4.4%	22.9	23.4	23.9	24.5	25.0	25.5	26.0
PV of FCFs in terminal period	4.6%	19.2	19.7	20.1	20.6	21.0	21.5	22.0
Enterprise value (EV)	4.8%	16.0	16.4	16.8	17.3	17.7	18.1	18.5
+ Net cash / - net debt	5.0%	13.2	13.6	14.0	14.4	14.8	15.2	15.5
Hybrid capital	5.2%	10.8	11.2	11.5	11.9	12.2	12.6	12.9
Shareholder value	5.4%	8.7	9.0	9.3	9.7	10.0	10.3	10.6
Fair value per share in EUR	5.6%	6.8	7.1	7.4	7.7	8.0	8.3	8.6

	WACC	Terminal growth rate						
		1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%
Cost of equity	4.4%	19.8	21.3	22.8	24.5	26.3	28.2	30.4
Pre-tax cost of debt	4.6%	16.7	17.9	19.2	20.6	22.1	23.7	25.5
Tax rate	4.8%	13.9	15.0	16.1	17.3	18.5	19.9	21.4
After-tax cost of debt	5.0%	11.5	12.4	13.4	14.4	15.5	16.7	17.9
Share of equity capital	5.2%	9.4	10.2	11.0	11.9	12.8	13.8	14.9
Share of debt capital	5.4%	7.5	8.2	8.9	9.7	10.5	11.4	12.3
WACC	5.6%	5.8	6.4	7.0	7.7	8.4	9.2	10.0

*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	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 through 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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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 15 August 2024 at 15:04

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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.

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

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...53	↓	↓	↓	↓
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	17 May 2024	€11.56	Buy	€13.70
62	Today	€11.70	Buy	€14.40

INVESTMENT HORIZON

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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

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