

Price (Euro)	4.82
52 weeks range	5.12 / 3.75

Key Data

ISIN	DE000A0XFSF0
Bloomberg	DMRE:GR
Reporting standard	IFRS
Market Cap (Euro million)	519
Number of shares (million)	107.8
Free Float	11.4%
Free Float Market Cap (Euro million)	59
CAGR EBT ('18 -'21e)	-4.0%

Multiples	2018	2019e	2020e	2021e
Market Cap/ Total revenues	7.0	6.4	5.2	4.4
PE-Ratio	8.4	7.4	9.5	8.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Price-to-Book-Ratio	0.97	0.85	0.78	0.72
P/ NAV-ratio	0.88	0.79	0.74	0.67

Key Data per share (Euro)	2018	2019e	2020e	2021e
Earnings per share (EPS)	0.57	0.65	0.51	0.54
Dividend per share (DPS)	0.00	0.00	0.00	0.00
Book Value per Share (BVPS)	4.99	5.65	6.15	6.74
EPRA NAV per share	5.50	6.07	6.55	7.16

Financial Data (Euro '000)	2018	2019e	2020e	2021e
Rental income	73,709	81,324	98,987	117,024
Net revaluation result	93,059	65,214	46,823	43,589
Operating profit (EBIT)	127,065	115,522	109,938	120,318
Net financial result	-38,308	-29,839	-36,132	-41,687
Pre-tax profit (EBT)	88,757	85,683	73,806	78,631
Taxation	-19,704	-1,018	-1,254	-1,490
Net profit after minorities	61,575	80,248	70,377	75,208
FFO I after tax	23,359	31,241	38,417	45,674
Shareholders' equity (Euro million)	582	727	887	966
Property portfolio (Euro million)	1,130	1,525	1,813	2,079
RoE (after tax)	13.7%	12.3%	8.7%	8.1%
Equity ratio (incl. equity minorities)	42.2%	42.2%	40.2%	39.1%

Main Shareholders

Apollo	64.1%
Wecken-Group	24.5%

Financial calendar

SRC Forum Financials & Real Estate	3 September 2019
9M 2019 report	14 November 2019

Analysts

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Strong 1H numbers lead to a lifted full year guidance – FFO up 40%, rental income +5% – Portfolio value close to Euro 1.4bn – Target up to Euro 5.90 and rating lifted to Buy

Today, DEMIRE published the report for the first half of 2019. The numbers developed very well, resulting in an increase of the full year guidance by the management. This comes as no surprise, however, as we already stated in our last update, that the previous guidance seemed too conservative to us. Rental income hiked from Euro 36.6m to Euro 38.2m, up almost 5%, mainly driven by additions to the portfolio. Like-for-Like rental growth was at 1.3%. Income from the rental of real estate even hiked by 14%, as maintenance costs are down. The revaluation result was at Euro 29m (1H 2018: Euro 70m). Expenses were significantly reduced as well. G&A expenses were more than cut in half, from Euro 12.8m to Euro 5.8m due to lower advisory and consultancy fees. Operating profit on EBIT basis came in at almost Euro 55m, down from more than Euro 84m due to the lower revaluation result. The financial result significantly improved from Euro -22m to Euro -14m, driven by a decrease in minorities but also by lower financial expenses. Pre-tax profit was all in all at almost Euro 41m while net profit came in at more than Euro 34m, down from last year's almost Euro 45m. Adjusted for the valuation result however, net profit was up from a loss of Euro -7.7m last year to a profit of almost Euro 12m. The FFO result was at Euro 15.9m significantly up by 40% from last year's number of Euro 11.4m.

The positive development was visible in the portfolio as well. The four office properties acquired in November 2018 and the retail portfolio acquired in May have already been closed. The portfolio now stands at 92 properties with a value of Euro 1.4bn and an annual gross rental income of more than Euro 87m. The vacancy rate hiked to 11.1% as of 1H 2019, but with the already signed rental contracts the pro forma vacancy rate came back down to 10.3% already. The overall letting performance was high at 127k sqm and the WALT slightly increased year-over-year from 4.7 to 4.8. In addition to the progress in the existing portfolio the management stated that there is a strong deal pipeline ahead and further deals can be expected in the current year. The equity ratio of 41.0% and the LTV of 44.3% combined with a high level of liquidity of more than Euro 130m at 1H leave further room for growth.

Following the good numbers the management decided to lift the full year guidance and now expects a rental income between Euro 80.5m to Euro 82.5m and a FFO I result of Euro 30.0m to Euro 32.0m. As our estimates were already above the original guidance, we only slightly adjusted these upwards, also affecting the numbers of the coming years, and now expect a rental income of Euro 81.3m and a FFO result of 31.2m for 2019. **The lifted P&L further result in a new target price of Euro 5.90. This is also supported by the EPRA NAV per share, which is at Euro 5.85, up 6.3% in the first six months. Our target price results in an upside of currently over 20%. Thus, we lift our rating from Accumulate to Buy.**

DEMIRE Deutsche Mittelstand Real Estate AG

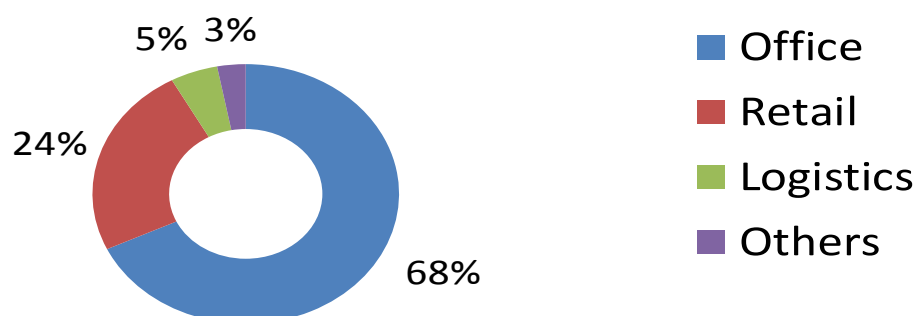
Industry:	Real Estate	Management Board of DEMIRE AG:
Sub-segment:	Office / Retail / Logistics	Ingo Hartlief FRICS (CEO)
Region:	Germany	Tim Brückner (CFO)
Headquarter:	Frankfurt am Main	
Foundation	2006	
Employees: (31.12.2018)	75	Supervisory Board of DEMIRE AG:
		Prof. Dr. Alexander Goepfert (Chairman)
IR Contact:		Frank Hölzle (Vice Chairman)
Michael Teheder, Head of IR and Corporate Finance		Prof. Dr. Kerstin Hennig
teheder@demire.ag		

DEMIRE Deutsche Mittelstand Real Estate AG acquires and manages high quality commercial real estate properties. The firm was originally founded in April 2006 as MAGNAT Real Estate Opportunities, focusing their business activities on real estate markets in Eastern Europe and the Black Sea region. In 2013 however, the company changed their strategic alignment and further changed their name to DEMIRE Deutsche Mittelstand Real Estate AG. Since then, the focus has been shifted on office, retail and logistics properties in secondary locations across Germany, such as mid-sized cities and bordering areas to metropolitan cities. The company follows a strategy that combines a stable income creating Core+ portfolio with value-add properties to create rental growth opportunities due to a "manage-to-core" strategy, and redevelopments due to extensions, refurbishments and selective developments.

The company currently holds a diversified portfolio with a total rental space of almost 1,100,000 sqm and a portfolio value of close to Euro 1.4bn as of 1H 2019. The portfolio is diversified within the commercial segment. Currently, about 68% of the portfolio in terms of Gross Asset Value is concentrated in offices, 24% in retail properties, 5% in the logistics segment and about 3% in others. The largest share of the portfolio is located in the state of North Rhine-Westphalia, where more than 23% of the portfolio is held. So far in 2019 about Euro 0.3bn of new acquisitions were closed. For the rest of the year we expect further additions to the portfolio and some minor disposals as currently Euro 12m of properties are held for sale.

The average maturity of rental contracts amounts to c. 4.8 years with a vacancy rate of 11.1% as of 1H 2019. Among tenants are various well-known and successful brands like Telekom, Sparkasse, Comdirect Bank, and Zapf. Except the 27.3% share of GMG (Telekom), the remaining tenants from the top 10 list make up for not more than 3% each. This represents a well diversified income structure. Average gross rental yield is at 6.2%. Office properties have a yield of 6.1% as compared to retail at 6.5% and logistics at 6.4%.

Asset Class as % of portfolio market value as of 1H 2019



Since 15 July 2016, DEMIRE is trading in the Prime Standard segment in Frankfurt. That segment requires the highest level of transparency of all segments at the Frankfurt Stock Exchange and even in Europe.

Source: Company Data, SRC Research

SWOT Analysis

Strengths

- The Management is highly senior, experienced and well-known in the German real estate sector.
- The transformation of the company has well proceeded since the change in strategy in 2013 and now has a clear focus and targets for the coming years.
- The current portfolio is well diversified between asset classes and regions and therefore has no cluster risks in that regard.

Weaknesses

- The firm's current free float of the share is at about 11% very low, which limits the tradability and liquidity of the share. The free float should be increased with possible upcoming capital hikes, however.
- DEMIRE still lacks reputation in the market, which leads to a discount in their share price. As the firm gains more popularity and awareness with investors we see this current weakness turning into an opportunity to close the current gap to NAV.

Opportunities

- DEMIRE currently follows the strategic plan "REALize Potential". Thereby the company aims lift the size of the portfolio to more than Euro 2bn, realize potential through asset management, reduce their financing costs and make use of economies of scales in the portfolio. The strategic plan sounds very promising and, if accomplished, could lead to lucrative earnings in the midterm future. DEMIRE is on a very good way to deliver on the goals. Two big portfolio deals were recently closed in 2019. More deals are in the pipeline for coming quarters.
- DEMIRE could reach better financing conditions as they reach a better standing and they grow their portfolio and strengthen their balance sheet. The firm has already significantly lowered its cost of debt to currently 2.%, but still has room to improve. A rating upgrade to investment grade, which is targeted by the firm, should significantly help that cause.
- The firm still has a lot of upside potential in their current portfolio due to revaluation gains. There are many objects that are still significantly below the potential value. The company can help realize that potential by improving their portfolio e.g. by reducing vacancy rates and other measures.
- The focus on secondary locations still offer lucrative yields compared to the Top7 locations and good opportunities to find lucrative deals with value add potential that will drive the company's operations and thus the share.

Threats

- The largest tenant in the portfolio, Deutsche Telekom, currently makes up for almost 30% of gross rental income, which could lead to a significant reduction in rental income if problems were to arise. However, Deutsche Telekom is a large company with a long history and therefore a good tenant to have. Furthermore, the exposure is split over multiple different lease contracts and over many properties with long lease maturities and a high WALT.
- The company follows a "manage-to-core" strategy in their Value-Add portfolio and further has some redevelopment objects in their portfolio. Problems regarding the improvements of the objects could lead to higher than expected costs.
- A change in European monetary policy by the ECB regarding the termination of the currently all-time low-interest period could result in a relatively high increase of interest expenses and might also lead to higher expenses for DEMIRE. We currently do not see any drastic changes in the near future however and the company has also already locked in some long term financing at good rates. And keep in mind, that new portfolio additions might probably come in the portfolio with lower Cost of Debt as the current group level, bringing down the group's Cost of Debt position.

DEMIRE Deutsche Mittelstand Real Estate AG 31/12 IFRS ('000)	2016	2017	2018	2019e	2020e	2021e	CAGR '18 - '21e
Rental income	76,371	73,716	73,709	81,324	98,987	117,024	16.7%
Income from utility and service charges	15,746	14,624	15,101	17,213	19,797	23,405	
Operating and ancillary costs	-33,547	-32,708	-30,310	-31,635	-34,645	-40,958	
Profit/loss from the rental of real estate	58,570	55,632	58,500	66,902	84,139	99,470	19.4%
Revenue from the sale of real estate companies	7,471	0	0	0	0	0	
Net assets from real estate companies sold	-3,510	0	0	0	0	0	
Profit/loss from the sale of real estate companies	3,961	0	0	0	0	0	
Revenues from the sale of real estate	21,966	28,389	1,052	7,514	3,264	1,245	
Expenses relating to the real estate sales	-21,003	-27,445	-1,002	-7,125	-3,147	-963	
Profit/loss from the sale of real estate	963	944	50	389	117	282	
Profits from investments accounted for using the equity method	0	73	0	0	0	0	
Losses from investments accounted for using the equity method	-359	0	0	0	0	0	
Unrealised fair value adjustments in equity investments	0	0	0	0	0	0	
Profit/loss from investments accounted for using the equity method	-359	73	0	0	0	0	
Profit/loss from fair value adjustments in investment properties	38,414	48,560	93,059	65,214	46,823	43,589	
Impairment of receivables	-2,058	-2,763	-1,874	-746	-547	-314	
Profits originating from a purchase below market value	0	0	0	0	0	0	
Other operating income	5,550	5,052	2,513	2,478	3,748	2,981	
Other operating income and other effects	41,906	50,849	93,698	66,946	50,024	46,256	-21.0%
General and administrative expenses	-14,505	-15,304	-19,007	-13,478	-15,749	-17,214	
Other operating expenses	-7,367	-7,523	-6,176	-5,237	-8,593	-8,476	
Earnings before interest and taxes (EBIT)	83,169	84,671	127,065	115,522	109,938	120,318	-1.8%
Financial income	1,153	940	480	1,269	1,341	1,413	
Finance expenses	-39,134	-49,703	-26,415	-25,137	-32,146	-38,417	
Interest of minority shareholders	-5,226	-8,279	-12,373	-5,971	-5,327	-4,683	
Financial result	-43,207	-57,042	-38,308	-29,839	-36,132	-41,687	
Profit/loss before taxes (EBT)	39,962	27,629	88,757	85,683	73,806	78,631	-4.0%
Income taxes	-12,313	-8,197	-19,704	-1,018	-1,254	-1,490	
Tax rate	31%	30%	22%	1%	2%	2%	
Net profit/loss	27,649	19,432	69,053	84,665	72,552	77,141	
Minorities	-2,979	-5,649	-7,478	-4,417	-2,175	-1,933	
Net profit/loss after minorities	24,670	13,783	61,575	80,248	70,377	75,208	
FFO I after tax	13,019	11,738	23,359	31,241	38,417	45,674	25.0%
FFO per share	0.24	0.22	0.32	0.25	0.28	0.33	
Number of shares ('000)	54,247	54,271	107,777	122,589	138,174	138,174	
Earnings per share (EPS)	0.39	0.25	0.57	0.65	0.51	0.54	
Dividend per share (DPS)	0.00	0.00	0.00	0.00	0.00	0.00	
in % of FFO result	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity (without minorities)	271,945	285,417	537,913	692,147	849,476	930,805	43.8%
Shareholders' Equity (including minorities)	308,637	319,101	582,338	727,147	887,372	965,586	
EPRA NAV	300,459	323,572	595,225	744,569	904,634	988,947	40.9%
Balance Sheet sum	1,094,006	1,147,116	1,378,692	1,722,547	2,205,318	2,469,269	
Equity Ratio	28.2%	27.8%	42.2%	42.2%	40.2%	39.1%	
RoE (after tax)	8.6%	4.4%	13.7%	12.3%	8.7%	8.1%	25.7%
Property portfolio	981,274	1,034,100	1,130,400	1,524,783	1,812,589	2,079,025	
Book Value per share (Euro)	5.01	5.26	4.99	5.65	6.15	6.74	5.3%
EPRA NAV per share (Euro)	4.60	4.94	5.50	6.07	6.55	7.16	9.8%

SRC Research

- Der Spezialist für Finanz- und Immobilienaktien -

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Rating chronicle:

Company	Date	Rating	former share price	former target
DEMIRE	15 May 2019	Accumulate	4.95 €	5.60 €
DEMIRE	22 March 2019	Accumulate	4.90 €	5.40 €
DEMIRE	18 January 2019	Buy	4.54 €	5.40 €
DEMIRE	20 December 2018	Buy	4.27 €	5.40 €
DEMIRE	15 November 2018	Buy	4.30 €	5.40 €
DEMIRE	2 November 2018	Buy	4.18 €	5.10 €
DEMIRE	16 August 2018	Buy	4.17 €	5.10 €
DEMIRE	1 June 2018	Buy	4.38 €	5.10 €
DEMIRE	3 May 2018	Buy	4.36 €	5.10 €
DEMIRE	27 February 2018	Buy	3.91 €	5.10 €

Please note:

The share price mentioned in this report is from 13 August 2019. DEMIRE Deutsche Mittelstand Real Estate AG mandated SRC Research for covering the share.

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