

Buy (unchanged) **Target: Euro 6.10** (old: Euro 5.90)

14 | November | 2019

■ **Price (Euro)** **5.18**
52 weeks range 5.18 / 4.12

■ **Key Data**

ISIN DE000A0XFSF0
Bloomberg DMRE:GR
Reporting standard IFRS
Market Cap (Euro million) 558
Number of shares (million) 107.8
Free Float 11.4%
Free Float Market Cap (Euro million) 64
CAGR EBT ('18 -'21e) -1.9%

■ **Multiples**

	2018	2019e	2020e	2021e
Market Cap/ Total revenues	7.6	6.7	5.6	4.8
PE-Ratio	9.1	7.3	9.6	8.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Price-to-Book-Ratio	1.04	0.90	0.84	0.77
P/ NAV-ratio	0.94	0.85	0.79	0.72

■ **Key Data per share (Euro)**

	2018	2019e	2020e	2021e
Earnings per share (EPS)	0.57	0.71	0.54	0.58
Dividend per share (DPS)	0.00	0.00	0.00	0.00
Book Value per Share (BVPS)	4.99	5.75	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	82,947	98,987	117,024
Net revaluation result	93,059	71,436	46,823	43,589
Operating profit (EBIT)	127,065	137,649	109,938	120,318
Net financial result	-38,308	-35,471	-31,584	-36,410
Pre-tax profit (EBT)	88,757	102,178	78,354	83,908
Taxation	-19,704	-10,349	-1,254	-1,490
Net profit after minorities	61,575	87,412	74,925	80,485
FFO I after tax	23,359	32,458	44,512	51,643
Shareholders' equity (Euro million)	582	740	887	966
Property portfolio (Euro million)	1,130	1,525	1,813	2,079
RoE (after tax)	13.7%	13.2%	9.2%	8.7%
Equity ratio (incl. equity minorities)	42.2%	41.2%	40.2%	39.1%

■ **Main Shareholders**

Apollo 64.1%
Wecken-Group 24.5%

■ **Financial calendar**

Annual report 2019 18 March 2020
1Q report 2020 20 May 2020

■ **Analysts**

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9M numbers with hike in rental income of 9% and FFO of more than 33% – further portfolio growth expected till year-end – P&L numbers lifted – target price up to Euro 6.10, Buy affirmed

Today, the company reported the numbers for the first nine months and was fully on track to reach the full-year guidance, which was already lifted in August. Rental income was at more than Euro 60m up almost 9% from more than Euro 55m in last year's period. This is mostly the result of the new additions to the portfolio of about Euro 0.3bn so far this year, which contributed about Euro 4.5m to rental income alone. Profit from the rental of real estate even hiked by almost 15% due the improvements in utility costs and service charges. Next to the mentioned acquisitions, the company also sold non-strategic assets at a premium of about 30% to the last valuation, resulting in a profit of almost Euro 7m in the first nine months. As no valuation was done as of 9M, fair value adjustments remained at the level of 1H at Euro 30m and significantly below last year's Euro 70m. G&A expenses were almost cut in half compared to last year's period, as 9M 2018 were coined by high advisory and consultancy fees. All in all, operating profit on EBIT basis was at more than Euro 76m (9M 2018: Euro 95m). Keep in mind, that adjusted for the revaluation result, EBIT would have seen a hike of more than Euro 21m or of more than 80% respectively. The financial result of Euro -30.6m (9M 2018: -29.2m) includes almost Euro 10m of expenses related to the bond refinancing, on which we reported with our most recent update from 4 October and which will result in significant savings in the coming years. Net profit after minorities was at more than Euro 34m. The cash-driven FFO I result was at Euro 24.5m up more than 33% compared to last year's number of more than Euro 18m, reflecting the good performance of the company over the recent quarters.

The portfolio currently stands at almost Euro 1.4bn with a WALT of 4.7 years and an EPRA-Vacancy rate of 10.9%, which we expect to further come down till year-end due to the good letting performance of the company. With the high amount of fire power we would not be surprised to see another significant acquisition in the coming weeks before year-end. The diluted EPRA-NAV per share now stands at Euro 5.87, up about 6% since FY 2018.

We see the developments of the company fully on track with our expectations and the strategic targets set by the company. With the 9M numbers in the books, DEMIRE again confirmed the full-year guidance, which in our opinion could be a bit too conservative. Our lifted P&L numbers are with a rental income of almost Euro 83m and a FFO I of about Euro 32.5m now slightly above the firm's guided numbers. In turn we also lift our target price from Euro 5.90 to Euro 6.10. We confirm our Buy rating for the share.

DEMIRE Deutsche Mittelstand Real Estate AG

Industry: Real Estate
Sub-segment: Office / Retail / Logistics
Region: Germany
Headquarter: Frankfurt am Main
Foundation: 2006
Employees: (31.12.2018) 75

IR Contact:
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Management Board of DEMIRE AG:
 CEO Ingo Hartlief (FRICS)
 CFO Tim Brückner

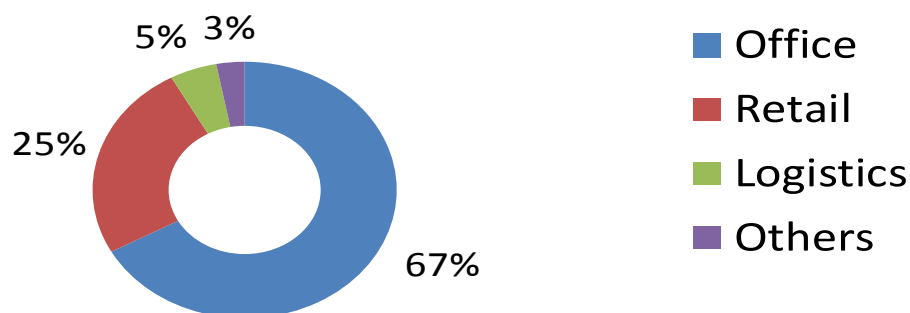
Supervisory Board of DEMIRE AG:
 Prof. Dr. Alexander Goepfert (Chairman)
 Frank Hölzle (Vice Chairman)
 Prof. Dr. Kerstin Hennig

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 9M 2019. The portfolio is diversified within the commercial segment. Currently, about 67% of the portfolio in terms of Gross Asset Value is concentrated in offices, 25% 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 17m of properties are held for sale.

The average maturity of rental contracts amounts to c. 4.7 years with a vacancy rate of 10.8% as of 9M 2019. Among tenants are various well-known and successful brands like Telekom, Sparkasse, Comdirect Bank, and Zapf. Except the 23.6% share of GMG (Telekom) and the 6.2% share of Karstadt, 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 6.1%. Office properties and logistic properties have a yield of 6.0% as compared to retail at 6.5%.

Asset Class as % of portfolio market value as of 9M 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 and the financing costs and profile was significantly improved following the placement of the benchmark corporate bond in September.
- 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 2.8%. After the placement of the new corporate bond and the respective refinancing activities the cost of debt decrease to below 2.0%.
- 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 about 23% 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	82,947	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	68,525	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	29,861	3,264	1,245	
Expenses relating to the real estate sales	-21,003	-27,445	-1,002	-21,087	-3,147	-963	
Profit/loss from the sale of real estate	963	944	50	8,774	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	71,436	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	73,168	50,024	46,256	-21.0%
General and administrative expenses	-14,505	-15,304	-19,007	-11,953	-15,749	-17,214	
Other operating expenses	-7,367	-7,523	-6,176	-865	-8,593	-8,476	
Earnings before interest and taxes (EBIT)	83,169	84,671	127,065	137,649	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	-30,769	-27,598	-33,140	
Interest of minority shareholders	-5,226	-8,279	-12,373	-5,971	-5,327	-4,683	
Financial result	-43,207	-57,042	-38,308	-35,471	-31,584	-36,410	
Profit/loss before taxes (EBT)	39,962	27,629	88,757	102,178	78,354	83,908	-1.9%
Income taxes	-12,313	-8,197	-19,704	-10,349	-1,254	-1,490	
Tax rate	31%	30%	22%	10%	2%	2%	
Net profit/loss	27,649	19,432	69,053	91,829	77,100	82,418	
Minorities	-2,979	-5,649	-7,478	-4,417	-2,175	-1,933	
Net profit/loss after minorities	24,670	13,783	61,575	87,412	74,925	80,485	
FFO I after tax	13,019	11,738	23,359	32,458	44,512	51,643	30.3%
FFO per share	0.24	0.22	0.32	0.26	0.32	0.37	
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	0.71	0.54	0.58	
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	705,234	849,476	930,805	43.8%
Shareholders' Equity (including minorities)	308,637	319,101	582,338	740,234	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	1,795,358	2,205,318	2,469,269	
Equity Ratio	28.2%	27.8%	42.2%	41.2%	40.2%	39.1%	
RoE (after tax)	8.6%	4.4%	13.7%	13.2%	9.2%	8.7%	28.0%
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	5.75	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

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Rating chronicle:

Company	Date	Rating	former share price	former target
DEMIRE	4 October 2019	Buy	5.12 €	5.90 €
DEMIRE	24 September 2019	Buy	5.00 €	5.90 €
DEMIRE	14 August 2019	Buy	4.82 €	5.90 €
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 €

Please note:

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

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