

15 | May | 2019

■ **Price (Euro)** **4.95**
52 weeks range 5.12 / 3.75

■ **Key Data**

ISIN DE000A0XFSF0
Bloomberg DMRE:GR
Reporting standard IFRS
Market Cap (Euro million) 533
Number of shares (million) 107.8
Free Float 11.4%
Free Float Market Cap (Euro million) 61
CAGR EBT ('17 -'20e) -8.4%

Multiples	2018	2019e	2020e	2021e
Market Cap/ Total revenues	7.2	6.7	5.4	4.6
PE-Ratio	8.7	9.0	11.7	10.5
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Price-to-Book-Ratio	0.99	0.88	0.81	0.73
P/ NAV-ratio	0.90	0.81	0.76	0.69

Key Data per share (Euro)	2018	2019e	2020e	2021e
Earnings per share (EPS)	0.57	0.55	0.42	0.47
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	80,147	98,142	116,287
Net revaluation result	93,059	65,214	46,823	43,589
Operating profit (EBIT)	127,065	108,215	101,935	111,571
Net financial result	-38,308	-37,177	-40,244	-43,311
Pre-tax profit (EBT)	88,757	71,038	61,691	68,260
Taxation	-19,704	-1,018	-1,254	-1,490
Net profit after minorities	61,575	67,603	58,262	64,837
FFO I after tax	23,359	30,426	37,673	44,920
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%	10.3%	7.2%	7.0%
Equity ratio (incl. equity minorities)	42.2%	42.2%	40.2%	39.1%

■ **Main Shareholders**

Apollo 64.1%
Wecken-Group 24.5%

■ **Financial calendar**

AGM 29 May 2019
1H 2019 report 14 August 2019
SRC Forum Financials & Real Estate 3 September 2019

■ **Analysts**

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FFO I up 73% to almost Euro 9m in the first quarter, portfolio will grow by the new package deal just being closed end of April – new deals will follow soon – target up to Euro 5.60

Today, commercial real estate investor DEMIRE released the 1Q 2019 report and invited to a conference call to explain strategy and numbers. The numbers showed a significant FFO I hike of 73.5% from Euro 5.2m to Euro 8.9m. The EPRA vacancy rate slightly increased from 7.5% to 8.3% due to some lease expiries, but the rental income remained more or less unchanged at Euro 18.2m (1Q 2018: Euro 18.3m) and the net operating income from the rental business even steeply increased by almost 30% from Euro 13.2m to Euro 17.1m. With regards to the like-for-like rents, the first quarter delivered a positive +1.5% hike. In addition to that, the letting performance of 22k newly let sqm with an average WALT of 5.1 years (above 2018 average of 4.5 years) makes us optimistic for the following quarters. Besides the rising rents in the existing portfolio and the good letting performance the firm will soon profit from the acquisition of the Euro 167m four office properties package (Cologne, Essen in North Rhine Westphalia, Aschheim near Munich and Bad Vilbel near Frankfurt), which were acquired after the capital hike in November. The deal was recently closed on 30 April and these 4 properties generate an annual income of about Euro 9m and a yearly FFO of about Euro 3m. There was no revaluation impact in 1Q 2019, after there was a huge Euro 32m revaluation contribution in the previous year. With the new property portfolio added in 2Q 2019, we expect a positive impact coming to the group's P & L for half-year numbers. The 1Q EBIT came in at Euro 13.6m without being flattered by the valuation side (1Q 2018: Euro 42.1m/ without revaluation Euro 10.1m). Adjusted by the revaluation, the EBIT also delivered a significant hike of almost 35%.

In addition to the progress in the existing portfolio and the recently closed office deal the management stated that there is a strong deal pipeline ahead to come nearer to the mid-term target of Euro 2bn for the group's portfolio size. According to management, another deal might be likely until the release of the 1H report in August.

We judge the 1Q results as a good start for the new year. The Cost of Debt remained unchanged at 3.0%, as in 2018, but might gradually decrease with new portfolio additions and unlock additional potential for higher cash earnings. With a decelerating economic growth in Germany, which seems a very likely scenario, the B cities might be less sensitive than some A cities and tenants might be more loyal in the B locations. The company maintained the target to bring up the FFO I from Euro 23.4m in 2018 to a range of Euro 27m to Euro 29m in 2019. Even if we deduct some investments in the portfolio to follow soon, the target might be a bit too cautious after having almost Euro 9m in the house after the initial quarter. **Thus, we keep our projection that an FFO of about Euro 30m to Euro 31m might be in reach. The share gained 15% since the beginning of the year and we expect the positive trend to continue. We lift our target to Euro 5.60 and maintain the Accumulate.**

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 Tegeder, Head of IR and Corporate Finance		Dr. Thomas Wetzel
tegeder@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 (55%) with value-add properties (40%) to create rental growth opportunities due to a "manage-to-core" strategy, and redevelopments (5%) due to extensions, refurbishments and selective developments.

The company currently holds a diversified portfolio with a total rental space of more than 900,000 sqm and a portfolio value of Euro 1.13bn as of FY 2018. The portfolio is diversified within the commercial segment. Currently, about 68% of the portfolio in terms of Gross Asset Value is concentrated in 68 % offices, 23% in retail properties, 6% 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 almost 19% of the portfolio is held. During 2017, the company further followed its transformation strategy and sold some of the non-core assets from the old portfolio. For 2019 we expect significant 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. 4.5 years with a vacancy rate of 7.5 as of year-end 2018. Among tenants are various well-known and successful brands like Telekom, Sparkasse, Comdirect Bank, and Zapf. Except the 30.4% 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 6.5%. Office properties have a yield of 6.4% as compared to retail at 6.6% and logistics at 6.7%.

INVESTMENT STRATEGIES

in % of portfolio market value

- 54.6 Core plus
- 40.6 Value-added
- 4.8 Redevelopment



(Status: 31 / 12 / 2018)

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 in 2019 and following years, 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 "DEMIRE 2.0". Thereby the company aims to double the size of the portfolio, 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. One big portfolio deal (Euro 167m) was recently closed in April. 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 3.0%, 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 cities 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 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 28 different lease contracts and over 18 properties with lease maturities spreading until 2025 and a high WALT of more than 4 years.
- 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	80,147	98,142	116,287	16.4%
Income from utility and service charges	15,746	14,624	15,101	16,029	19,628	23,257	
Operating and ancillary costs	-33,547	-32,708	-30,310	-32,860	-40,238	-47,678	
Profit/loss from the rental of real estate	58,570	55,632	58,500	63,316	77,532	91,867	16.2%
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	-214	-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	3,147	3,748	2,981	
Other operating income and other effects	41,906	50,849	93,698	68,147	50,024	46,256	-21.0%
General and administrative expenses	-14,505	-15,304	-19,007	-16,796	-17,145	-18,358	
Other operating expenses	-7,367	-7,523	-6,176	-6,841	-8,593	-8,476	
Earnings before interest and taxes (EBIT)	83,169	84,671	127,065	108,215	101,935	111,571	-4.2%
Financial income	1,153	940	480	1,269	1,341	1,413	
Finance expenses	-39,134	-49,703	-26,415	-32,475	-36,258	-40,041	
Interest of minority shareholders	-5,226	-8,279	-12,373	-5,971	-5,327	-4,683	
Financial result	-43,207	-57,042	-38,308	-37,177	-40,244	-43,311	
Profit/loss before taxes (EBT)	39,962	27,629	88,757	71,038	61,691	68,260	-8.4%
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	70,020	60,437	66,770	
Minorities	-2,979	-5,649	-7,478	-2,417	-2,175	-1,933	
Net profit/loss after minorities	24,670	13,783	61,575	67,603	58,262	64,837	
FFO I after tax	13,019	11,738	23,359	30,426	37,673	44,920	24.4%
FFO per share	0.24	0.22	0.32	0.25	0.27	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	0.55	0.42	0.47	
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%	10.3%	7.2%	7.0%	18.0%
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	5.65	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%

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Rating chronicle:

Company	Date	Rating	former share price	former target
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 €
DEMIRE	1 February 2018	Buy	3.74 €	5.10 €

Please note:

The share price mentioned in this report is from 14 May 2019. DEMIRE Deutsche Mittelstand Real Estate AG mandated SRC Research for covering the share.

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